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RATIONAL BOOK-KEEPING
FOR COMMERCIAL STUDENTS

RATIONAL BOOK-KEEPING

FOR COMMERCIAL STUDENTS

**INCLUDING NOTES ON BUSINESS TERMS AND
ABBREVIATIONS, ACCOUNTING, AND BANKING**

**BY
JOHN McKECHNIE**

COMPLETELY REVISED AND PARTLY REWRITTEN

**BY
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AND
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NINTH EDITION

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PREFACE

THE student is introduced to the principles and practice of book-keeping in the way most likely to be easily understood : proceeding from known related matter to each new idea. Everyone knows something about receiving and paying cash. The Cash Book, in its various forms, is therefore dealt with in the first lesson. Posting is introduced at an early stage, and the fundamental principles of double entry are presented by explanation and illustration and the student's knowledge is tested by carefully graded short exercises.

The exercises are numerous, but care has been taken to curtail the number of transactions, particularly in the early stages. In this way the mind of the student is not overburdened, as is so frequently the case when text-books attempt to impart too many ideas at the same time.

Throughout the book, sections on Business Terms and Abbreviations are included. While these lists are by no means exhaustive, the most important and most frequently used terms and abbreviations have been selected, and it is hoped that by presenting them in small sections a more systematic study can be carried through than would be the case were the whole list compiled in one part of the book.

J. McK.

LONDON.

SEVENTH EDITION

SINCE the last edition of this book was prepared for the market, its author, Mr. John McKechnie, has passed away. It was felt, however, that a complete revision of the matter and exercises was necessary in order to preserve the custom since the book was first published of bringing it up-to-date and exactly in accord with modern practice and modern methods of teaching whenever the necessity arose. Consequently we have placed the revision for the seventh edition in the hands of two of the late Mr. McKechnie's colleagues who understood his views and have used his book themselves in actual teaching practice. Considerable alterations have been made in the book for this edition, and a new Key is in course of rapid preparation and will be placed on the market at the earliest possible moment. It is our belief that lecturers and teachers who have used the book in its successive editions will like this latest edition better than any that has preceded it.

THE GREGG PUBLISHING COMPANY LTD.

LONDON.

NINTH EDITION

THE ninth edition is substantially the same as the seventh and eighth. The few additions and alterations made will not prevent copies of these editions being used without difficulty in the same class. There are no alterations in the key.

THE GREGG PUBLISHING COMPANY LTD.

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RATIONAL BOOK-KEEPING

CHAPTER I

INTRODUCTORY—DOUBLE ENTRY—CASH, BANK, AND LEDGER

ASSUME that you purchased this book at the published price. From your point of view two things have happened—your stock of money has yielded something and your stock of books has received something. If you purchased on the understanding that payment would be made at a later date, two things would still require to be considered and recorded : your stock of books would have increased as before, and you would have yielded an expressed or implied promise to the seller of the book to pay the amount mentioned. This is an illustration of what is meant in Book-keeping by the word “ transaction,” a word which implies the existence of monetary values capable of being transferred from one account to another.

Hence we may define a business transaction as a transfer of values. It is very important that the meaning of the word “ transaction ” should be clearly understood. In every transaction there is a receiving and a giving account. The receiving account is debited, and the giving account credited. The record is made immediately the transaction is completed.

Business transactions may be classified into four distinct groups :

- (1) **Cash transactions**, where cash is exchanged for property ; that is, cash is received for goods or other property sold, or is paid for goods or other property purchased. When the cash is received, it is usually referred to as a “ cash sale ” ; when paid, a “ cash purchase.”
- (2) **Credit transactions**, where merchandise or some other property is purchased or sold “ on account ” ; that is, credit is allowed to or by the business. A transaction of this kind would be called a “ credit sale ” or a “ credit purchase.”
- (3) **Payment of a debt.**—In this class those referred to in the foregoing paragraph are cancelled by fulfilling the contract. When

- the debt is paid in full, it is usually referred to as "in settlement." Thus, if we say "paid Jones £25 'on account,'" this means that something is still owing to Jones; but when the phrase "in settlement" is used, we know that the debt has been completely discharged.
- (4) **Service transactions.**—Here cash or some other property is given or received in payment for services rendered to or by the business.

The main object in business is to make profits, and profits are made by means of transactions which involve the buying or manufacture of articles which are sold at a price greater than the cost.

It follows that all business men desire to have such information from accounting records as will enable them to manage their affairs so as to achieve this result. It must be realised also that there are people other than those immediately concerned with the management who may be financially interested. If the owner of a business wishes to borrow money from the bank, the officers of the bank may have to be supplied with particulars about the business to enable them to judge whether he will be able to repay at the time promised. The Income Tax authorities require certain facts and figures, and, for a great many other reasons which need not be detailed at this stage, it is necessary that records should be kept of all transactions. These records should be so complete that the owner can tell his exact financial position at any time. If a loss has occurred, the records, if properly kept, will explain how and when it took place, and, in addition, the arithmetical accuracy of the books can be automatically checked by means of a process known as "taking out a trial balance." Further, the trader should be able to tell at a glance how much and to whom money is owing, and how much money his debtors owe him.

There is only one system which can provide all these weighty advantages, and that system is known as Double Entry, the effect of which is that every transaction has a twofold aspect and must be recorded in two accounts.

The proprietor of the business must not be confused with the business itself. The records are kept for the business: the proprietor's interest in the business is a thing apart; he is, in fact, very similar to a customer. This is a matter which involves an important principle. Be sure that no confusion exists in regard to it.

EXERCISE 1

1. What is the chief reason for conducting a business ?
2. By what means does a business achieve the object for which it is carried on ?
3. What are the chief advantages of keeping accounting records ?

THE CASH BOOK

The first account to which we will give attention is the Cash Account.

Everyone knows something about receiving and paying money, and therefore the Cash Account, in which a record is made of receipts and payments, will be most readily understood—and as soon as a student has clearly grasped the principle on which this account is kept he will have travelled a long way towards a complete understanding of the meaning of Double Entry.

Let us consider the simple form of ruling which appears below. Observe the heavy vertical line which is ruled down the middle, separating the debit and credit sides.

<i>Dr.</i>						<i>Cash A/c—Simple Form</i>						<i>Cr.</i>					
<i>Receipts</i>						<i>Payments</i>											
Date.	Name of account to be credited.	Fol.	£	s.	d.	Date.	Name of account to be debited.	Fol.	£	s.	d.	Date.	Name of account to be debited.	Fol.	£	s.	d.
(1)	(2)	(3)		(4)		(5)	(6)	(7)			(8)						

A debtor is a person who owes value to you, and a creditor is a person to whom value is owing by you. These terms are frequently contracted to Dr. and Cr.

On the debit (left-hand) side of the Cash Account a record is kept of all money received by the business.

Column No. 1 provides for entering the date.

Column No. 2 should contain particulars showing the cause of the receipt of this money. Suppose money is received from Tom Smith in repayment of a sum lent by the business, then the words "Tom Smith (loan)" would be inserted in the details column. At the top of this column the student will note the explanation "account to be credited." Every entry on the debit side of the Cash Account must have a corresponding credit entry in an account in the Ledger. This

important point will be dealt with more fully when we come to talk about posting.

The folio column (No. 3) should contain a reference showing the page on which the credit entry of a particular item is to be found. In the case of the "Tom Smith" item, if we inserted "L5" in the folio column when posting, this would indicate that the credit entry will be found on page 5 of the Ledger.

In the £ s. d. columns (No. 4) on the debit side is entered the amount of cash received by the business.

The same idea applies in the case of those items which are entered on the right-hand or credit side of the Cash Account. All cash paid out is recorded on this side, and in column 6 sometimes one or two words are written to explain why the money was paid out. For example: when the money was originally lent to Tom Smith, his name would appear on the credit side and the word "loan" would explain the reason for a payment which was not the result of ordinary trading.

Make a careful study of the example which follows, but bear in mind that a full record of the transaction has *not* been made when the Cash Account has been completed. Every item on the debit side will later on have a corresponding entry on the credit side of an account in the Ledger. This account has been named in the details column on the debit side of the Cash Account. In the same way every item entered on the credit side of the Cash Account will be entered on the debit side in a Ledger account before the history of the transaction has been fully recorded. Do not be content with reading the explanation given in the following illustration. Write the account in your Cash Book. The plan, statement, and arrangement will be a guide in all future work.

ILLUSTRATION

On the 1st January, 1923, you have in your cash-box £12 2s.

On the 2nd January £3 was paid to you by Harold Brown.

On the 5th January you paid James Paterson, tailor, £10 10s.

On the 6th January you paid £2 6s. to Cecil Jones.

Make the necessary entries in your Cash Book and show the balance of cash in hand on the 7th January.

How to Proceed.—Remember that all cash which comes in is placed on the debit side and all money which leaves the cash-box must be accounted for on the credit side.

Let us examine the first item.

"You have in your cash-box £12 2s."

This item should be entered on the debit side, because the money must have come in at some time previously; it is, in fact, the amount remaining when the account was last balanced. A record of the existence of this money in the cash-box is made by entering "To balance £12 2s." on the left-hand side of the account.

On the 2nd January, your cash having received £3, this amount would be debited, and in the details column the name of the account to be credited would be *Harold Brown*.

Item on 5th January.—Money has gone away from the business, and therefore the Cash A/c must be credited with the amount by which it has been depleted. Enter on credit side "By James Paterson £10 10s."

No. 4.—It is obvious that £2 6s. has left the cash-box, and consequently this amount should be placed at once on the credit side, and in the details column would be placed the name of the account which received the money—namely, Cecil Jones.

Now the Cash Account would appear as follows :

Dr.				Cash A/c				Cr.			
		Fol.	£	s.	d.			Fol.	£	s.	d.
1923						1923					
Jan. 1	To Balance ..		12	2	-	Jan. 5	By James Paterson		10	10	-
" 2	" Harold Brown		3	-	-	" 6	" Cecil Jones ..		2	6	-

From this it is clear that the total money received amounted to £15 2s., and the total expended to £12 16s., leaving a balance in the cash-box of £2 6s. The account can now be balanced.

This is done by adding up both sides of the account separately and subtracting the smaller from the larger side. The difference (£2 6s.) is placed on the credit side "by balance c/d," making both totals equal. The totals are entered on the same line and the account is neatly ruled off. The balance is now carried down to the debit side, the date being shown as the next day after that of the date of closing. Note that the year is inserted above the month. The closing balance of the Cash A/c for one period becomes the opening balance of the Cash A/c for the next period.

Dr.				Cash A/c				Cr.			
				Fol.	£	s.	d.				
1923								1923			
Jan. 1	To Balance ..				12	2	-	Jan. 5	By J. Paterson ..		
" 2	" Harold Brown ..				3	-	-	" 6	" Cecil Jones ..		
								" 7	" Balance ..	c/d	
					£15	2	-				
1923											
Jan. 8	To Balance ..	b/d			2	6	-				

POINTS TO NOTE CAREFULLY

The letters c/d mean *carried down*, and the letters b/d signify *brought down*.

The object of a Cash A/c is to record all transactions in which cash is received or paid at the time of the transaction, and to show the balance in hand.

The A/c is closed periodically, and the balance brought down to the debit side on the same page or transferred to a new page.

When closed, the balance, together with the date of closing, and the words "by balance c/d," are entered on the credit side (preferably in red ink). This balance is carried down and dated ready for the following day "to balance b/d" (also preferably in red ink).

Note that the process of balancing is really a summary of the account. Whereas *before balancing*, the amount on hand (£2 6s.) was shown by two entries on the debit side and two entries on the credit side, *after balancing* the amount on hand is shown by one entry.

Correct and careful ruling adds much to the appearance of a set of books.

Each entry on the debit side is preceded by the word "to," and on the credit side the word "by" serves a similar purpose. These prefixes should be written before the first item, and then ditto marks, properly ranged, for each subsequent entry, as shown.

Sometimes students grasp the idea better by reading the A/c as follows :

- (1) Name of A/c.
- (2) Dr.
- (3) The matter in the details column.
- (4) For.

Thus the item on January 2 would read : "Cash Account is debtor to Harold Brown for £3."

If there is any balance in a Cash A/c it must always fall on

the *debit* side, because it is not possible to pay out more cash than is received.

Be particularly careful to place all figures in their proper places exactly under one another. Many errors in casting are traceable to carelessness in this respect.

The diagonal line drawn across the details column after the account has been balanced is for the purpose of preventing false entries.

Remember that all money which comes in is entered on the debit side, and all money which goes out is recorded on the credit side.

CASH A/c (SIMPLE FORM) EXERCISES

[If more than one exercise is written on a page, leave three blank lines after each exercise. Be sure to indicate the number of each exercise.]

EXERCISE 2

Draw out a simple form of Cash Account as shown on page 16, and enter the following particulars :

1935

- Jan. 3—Balance of cash in hand amounted to £18 16s.
- „ 4—James Robson paid you £15 in settlement of his account.
- „ 16—Paid gas account, £10 15s.
- „ 25—Remitted (paid) £6 2s. to Stanley Martin.
- „ 26—Bought for cash, office furniture and fittings, £4 6s.
- „ 28—Received £29 10s. from Alfred Robertson & Co.
- „ 29—Paid for trade expenses, £11 16s.
- „ 30—Paid salaries, £25.
- „ 31—Thomas Yates paid you £7 10s.
- „ 31—Paid rent, £9 10s.

Enter the cash balance on the credit side, rule off as shown in the illustration, and bring the balance down to the debit side.

EXERCISE 3

1935

- Jan. 1—Cash in hand, £250.
- „ 4—Paid £20 for motor licence.
- „ 5—Paid City Mills £192 for flour.
- „ 6—Received for cash sales, £50.
- „ 7—Paid Broachie & Son £77 in settlement of their account.
- „ 9—Received £10 5s. from R. Jennings on account.
- „ 10—The Central Hotel paid their account, £12 15s. 6d.
- „ 13—Cash sales, £14.
- „ 14—Paid Hazel & Brown, £129 14s. 9d.
- „ 18—Received from C. L. Lloyd, £95.
- „ 27—Cash sales, £40.

Enter the cash balance on the credit side, rule off, and bring the balance down to the debit side.

EXERCISE 4

1935

- Mar. 1—Cash in hand, £50.
 „ 2—Purchased and paid cash for office desk, £10. (Enter
 „ “Furniture and Fittings” in the details column.)
 „ 3—Cash sales amounted to £7 10s.
 „ 9—Paid Caleb Barber, £20.
 „ 17—Received £20 from James Graham in settlement of his $\frac{1}{2}\%$.
 „ 18—Sent £24 to the Solid Construction Company on $\frac{1}{4}\%$.
 „ 19—Bought, for cash, 500 patent heel pads, £20.
 „ 29—Received £224 17s. 6d. for cash sales, and paid the Hardware
 „ Company £27 in settlement.
 „ 30—Paid rent of premises, £132.
 „ 31—Accepted the Caxton's Company estimate for the printing
 „ of 50,000 circulars at £150, and paid £50 on $\frac{1}{4}\%$.

Enter the cash balance on the credit side, rule off neatly,
 and bring down the balance to the debit side.

EXERCISE 5

					£	s.	d.
1935							
Aug.	1—Cash in hand	..	..	..	250	-	-
„	3—Paid Walter Lea	..	..	..	£0	-	-
„	3—Received from N. Penny	..	..	..	10	10	0
„	4—William Pitt paid his $\frac{1}{2}\%$	..	..	..	1	10	6
„	7—Received cash for goods sold by auction				34	2	6
„	8—Cash sales	..	..	..	13	4	3
„	8—Received from Mark Cook	..	..	..	230	-	-
„	8—Purchases made in market	..	..	..	221	3	6
„	9—Carriage on goods from market	..	..	..	10	2	4
„	10—Purchased goods	..	..	..	56	7	6
„	11—Cash sales	..	..	..	121	2	4
„	12—Paid into Bank	..	..	..	250	-	-

Enter the cash balance on the credit side, rule off neatly,
 and bring down the balance on the debit side.

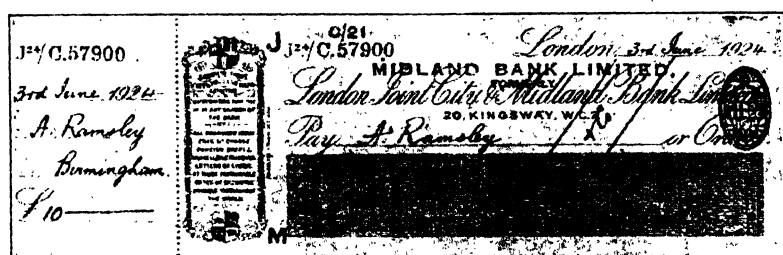
TWO-COLUMN CASH BOOK

People who conduct business nowadays rarely keep large sums of money in the form of coin or paper currency in the office. Most payments are made by cheque, i.e. an order written in legal form, and bearing a stamp duty (a tax imposed by the Government), requiring the banker to pay a specified sum of money as directed by the person signing the cheque. (See illustration on page 19.)

At a later stage a much deeper study of banks and banking will be made, but meantime it is sufficient to know that a

business man becomes a customer of an ordinary commercial bank, and keeps a certain amount of money there, on the understanding that the banker will pay as directed by the signed cheques. This is a safe and convenient means of making and receiving payments, and is consequently very popular. Certain payments could not be paid by cheque. For example, a workman would not be willing to accept his wages in that form, it would not be worth while to pay a very small amount by cheque, and there are many other items of expenditure in which coin and paper currency are necessary. We may therefore correctly assume that most business firms require to keep a Cash Account as well as a Bank Account, and these can be kept in the two-column Cash Book.

Here is a reproduction of a cheque :



The matter on the left of the dotted line is the counterfoil, which is retained in the Cheque Book. The other part is detached when the cheque is sent out. The parallel lines drawn across the face of the cheque, enclosing the words "& Co.," have the effect of making the cheque payable through a banker. There are a great many other points of interest about cheques which will be studied at a later stage.

ILLUSTRATION OF BANK A/c

The Bank Account is kept in a similar way to a Cash Account, as shown in the following illustration.

Mar. 31—Cash in Bank £60 7s. 8d. after balancing.

Apr. 1—Sold coal and received cheque for £68, which I paid into the Bank.

" 2—Purchased, and paid for by cheque, a new waggon for £40 and a horse for £50.

Enter the above transactions in the Bank Account and balance.

<i>Dr.</i>		Bank A/c					<i>Cr.</i>			
1923			£	s.	d.	1923		£	s.	d.
April 1	To Balance ..	b/d	60	7	8	April 2	By Waggon ..	40	—	—
" 1	" Coal ..		68	—	—	" 2	" Horse ..	50	—	—
						" 2	" Balance ..	38	7	8
			<u>£128</u>	<u>7</u>	<u>8</u>			<u>£128</u>	<u>7</u>	<u>8</u>
1923										
April 3	To Balance ..	b/d	38	7	8					

The Cash A/c and the Bank A/c can be combined in one form. This can best be made clear by an illustration.

Write up the Cash and Bank A/cs of M. Morrison, merchant, from the following particulars :

(Key showing separate accounts and how they are combined in one account is shown on page 21.)

1923		£	s.	d.
Feb. 1	—Cash in hand	30	—	—
" 1	—Balance at Bank	250	—	—
" 2	—Received cheque from D. David	17	10	—
" 2	—Paid John Cleale by cheque	47	10	—
" 3	—Sold goods for cash	23	10	—
" 4	—Cashd cheque	30	—	—
" 4	—Paid sundry trade expenses by cash	1	10	6
" 4	—Paid rent by cash	2	2	—
" 4	—Paid wages by cash	13	2	6
" 4	—Paid for office cleaning by cash	—	12	6
" 4	—Drew cash for personal expenses	20	—	—
" 5	—Received cash from Charles Gilbey	56	6	8
" 6	—Paid into Bank	100	—	—

All cheques are paid into the bank on the same day.

Students of Book-keeping in the early stages often become alarmed when they see elaborate rulings, apparently because of a misconception that the more ruling there is the more complication.

You will be well advised to take the opposite view : that all ruling tends to simplification and clearness. If ruling had not achieved these objects, it would have been dispensed with long ago, for business people have no time to waste. Ruling is really the practical application of the time-worn counsel, "A place for everything, and everything in its place." With this idea in your mind, study the following illustration :

21

[illegible]

The balance at the bank would be shown on the debit side of the Bank Account in the same manner as the balance of cash in the cash-box would be shown on the debit side of the Cash Account. Suppose a balance of £200 existed at the bank and the cash in hand had dwindled down to £4, the cash and bank balances would be shown as set out below.

<i>Dr.</i>		Cash		Book		<i>Cr.</i>	
Date.	Details Column.	Cash.	Bank.	Date.	Details Column.	Cash.	Bank.
	To Balances	£ 4	£ 200			£ s. d.	£ s. d.

You decide to draw £50 from the bank and place the money in your cash-box. Having done so, the transaction is recorded as follows:—

<i>Dr.</i>		Cash		Book		<i>Cr.</i>	
Date.	Details Column.	Cash.	/ Bank.	Date.	Details Column.	Cash.	Bank.
	To Balances	£ 4	£ 200		By Cash	£ s. d.	£ s. d.
	„ Bank	50					50

POINTS TO NOTE CAREFULLY

Unlike a Cash A/c, a Bank A/c can have a credit balance ; in other words, the credit side can be heavier than the debit, for, while it is impossible to pay away more cash than is possessed by the business, yet, by arranging with a banker, a loan, which is termed an overdraft, may be granted, enabling a business to draw more money than is standing to credit.

The letter " c " is placed in the folio column to indicate a contra or cross entry ; that is to say, the opposite side contains the other entry connected with the transaction. Pay special attention to this instruction, for many students misunderstand the idea in the first instance.

All money that is received by the business and placed in the cash-box is recorded on the debit side in the cash column. This money may be in the form of coins, cheques, money orders, or any business paper which passes as money.

All money paid into the bank is recorded on the debit side in the bank column.

Every payment made by cheque is recorded on the credit side in the bank column.

If money is received and paid into the Bank on the same day, do not make unnecessary entries by recording it in the cash column and then making a contra entry. Enter the amount in the bank column right away. If, however, the cheque is retained in the office cash-box for a day or more (as in item on May 3, Exercise 7) the amount should be debited to cash. Later, when paid into the bank, treat the matter as a separate transaction—crediting cash and debiting bank.

The process of balancing the accounts is the same as in the case of the simple form of Cash Account already explained. The debit and credit sides of the cash columns are added, the balance is entered on the credit side and brought down to the debit side, and the bank balance is treated in the same way.

EXERCISE 6

Enter the following transactions in a two-column Cash Book :

1935		£	s.	d.
April	1—Cash at Bank	500	7	6
"	1—Cash in hand	50	5	—
"	3—Paid F. Sinclair cheque	45	7	9
"	4—Cash sales	90	—	—
"	5—Paid into Bank	50	—	—
"	7—Received cheque from R. Franks, and paid it into the Bank on the same day	75	10	—
"	10—Paid wages, cash	40	—	—
"	15—Cash sales	102	—	—
"	15—Paid into Bank	140	—	—
"	17—Paid W. Guy cheque	94	—	—
"	19—Drew cheque and paid rent	35	—	—
"	20—Drew cheque for office cash	20	—	—
"	23—Bought office furniture, cash	25	—	—

EXERCISE 7

Enter the following transactions in a two-column Cash Book :

1935		£	s.	d.
May	1—Cash in the Bank	400	—	—
"	1—Cash in hand	54	19	6
"	3—Received cheque from Robert White	100	—	—
"	5—Paid salaries in cash	50	—	—
"	7—Sent R. White's cheque to Bank	100	—	—
"	9—Paid advertising % by cheque	57	—	—
"	11—Bought typewriter and paid £12 on account by cheque	12	—	—
"	20—Drew cheque for telephone %	15	—	—
"	25—Received from James Price, cash	4	10	—

THREE-COLUMN CASH BOOK

Discount.—Now we are going to add another money column to each side of the Cash Book, for the purpose of entering details of discounts allowed and discounts received. Why should merchants allow discount for prompt payment ? There are two main reasons :

- (1) When money is owing, there is always a certain element of uncertainty about final payment in full. The debtor may become financially embarrassed, through trade fluctuations or other causes ; he may become bankrupt, and in various other ways circum-

stances might arise which would give excuse for the postponement of a settlement.

- (2) When money is actually received it can be used, probably to great advantage.

Hence, with the object of encouraging prompt payment, it is usual to make an allowance to debtors when cash is paid within a certain time, and consequently the record of discounts allowed and received will always be closely related to receipts and payments. It is convenient to keep these memorandum columns (remember that they are only memorandum columns) in the Cash Book. On the credit side, the discount column will show the amounts allowed off their accounts by creditors, and on the debit side will be noted the sums which your business has allowed to debtors.

The discount columns are *not* balanced in the same way as the cash and bank columns. The debit and credit cash and the debit and credit bank columns together form complete accounts, but the discount columns are "collecting columns" placed here so that later the totals and separate items may be conveniently posted to their proper accounts in the Ledger.

The ruling of the three-column Cash Book is shown on page 26.

ILLUSTRATIVE EXERCISE

Enter the following transactions in a three-column Cash Book, and complete double entry by posting in accordance with the instructions detailed :

1930

- Mar. 1—Received Cash from B. Mair, £114 ; allowed him discount, £6.
.. 2—J. Smith owed £64, but he was entitled to deduct 5% discount if paid before 3rd March. He paid cash to-day, £60 16s.
.. 4—Paid into Bank, £100.
.. 6—H. James pays by cheque his account of £25 less 5% discount. The cheque was paid into the Bank at once.
.. 7—Paid H. Jones £95 by cheque ; received discount, £5.
.. 8—M. Wilson paid £30 in cash.
.. 9—Received £15 in cash from B. Mair. Paid R. Green £140 by cheque.
Paid £90 into Bank.
J. Smith paid by cheque £54 3s. ; discount allowed, £2 17s. The cheque was paid into the Bank at once.
.. 10—Paid H. Jones by cheque, £47 10s. ; discount, £2 10s. Paid R. Green by cash, £20.
Received and paid into Bank cheque from H. James, £20.

Dr.		Cash Book						Cr.			
		L.F.	Discount	Cash.	Bank.			L.F.	Discount	Cash.	Bank.
			£	s.	d.	£	s.	d.	£	s.	d.
930	To B. Mair	1	6	-	114	-	-			100	-
Mar. 1											
" 2	" J. Smith	2	3	4	60	16	-				
" 4	" Cash	c			100	-	-				
" 6	" H. James	3	1	5	23	15	-				
" 8	" M. Wilson	4			30	-	-				
" 9	" B. Mair	1			15	-	-			20	-
" 10	" Cash	c			90	-	-			9	16
" 11	" J. Smith	2	2	17	54	3	-				
" 12	" H. James	3			20	-	-				
" 13		7	13	6	219	16	-	7	7	10	-
" 14	" Balance	b/d			9	16	-				
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POSTING THE CASH BOOK

The Cash columns in the Cash Book, on the debit and credit sides, together form an account; and, in the same way, the Bank columns, on the debit and credit sides, form an account. Since the first entries are made in the Cash Book direct, the Cash Book performs the function of a book of original entry, but as the Cash Book contains these *accounts* it is also a part of the Ledger. It is therefore true to say that in so far as the Cash Book contains accounts, it is part of the Ledger bound separately for the sake of convenience.

When an amount is taken out of Cash and paid into the Bank, the entry is made in the debit Bank column and in the credit Cash column, double entry thus being completed in the Cash Book. The letter "c" (an abbreviation for "contra" meaning "against") is placed in the folio columns.

All other items on the debit side in the Cash column must be entered on the *credit* side of the respective accounts in the Ledger—Date, *By* Cash, folio, amount. All other items entered on the *credit* side in the Cash column must be entered on the debit side of the respective accounts in the Ledger—Date, *To* Cash, folio, amount. The entries in the Bank columns are treated in the same way. Items on the debit side will be posted to the credit side of the account named in the narrative column and will be entered—Date, *By* Bank, folio, amount; items on the *credit* side will be posted to the debit side of the account named in the narrative column, the entry being—Date, *To* Bank, folio, amount.

As the Discount columns in the Cash Book are original entry or memorandum columns (conveniently placed because of the intimate relationship between Discount, Cash, and Bank transactions) they are not combined together to represent a complete account. Each debit item should be posted to the credit side of the respective personal account in the Ledger, "By Discount." Similarly, the credit items will be posted to the debit of the personal accounts—"To Discount." As a general rule Discount can be combined with the cash or bank payment with which it is connected and the posting can be made in one operation—as *By* (or *To*) Cash and Discount or *By* (or *To*) Bank and Discount. Double entry is completed by posting the total of the Discount column on the debit side to the debit side of the Discount Account in the Ledger, and

the total of the credit Discount column to the credit side of the Discount Account in the Ledger. Insert the folios.

LEDGER

<i>Dr.</i>		<i>B. Mair</i>		<i>Folio 1. Cr.</i>	
		1930			£ s. d.
		Mar. 1	By Cash ..	1	114 - -
			„ Discount ..	1	6 - -
		„ 9	„ Cash ..	1	15 - -
<i>Dr.</i>		<i>J. Smith</i>		<i>Folio 2. Cr.</i>	
		1930			£ s. d.
		Mar. 2	By Cash ..	1	60 16 -
			„ Discount ..	1	3 4 -
		„ 9	„ Bank ..	1	54 3 -
			„ Discount ..	1	2 17 -
<i>Dr.</i>		<i>H. James</i>		<i>Folio 3. Cr.</i>	
		1930			£ s. d.
		Mar. 6	By Bank ..	1	23 15 -
			„ Discount ..	1	1 5 -
		„ 10	„ Bank ..	1	20 - -
<i>Dr.</i>		<i>M. Wilson</i>		<i>Folio 4. Cr.</i>	
		1930			£ s. d.
		Mar. 8	By Cash ..		30 - -
<i>Dr.</i>		<i>H. Jones</i>		<i>Folio 5. Cr.</i>	
1930			£ s. d.		
Mar. 7	To Bank ..	1	95 - -		
	„ Discount ..	1	5 - -		
„ 10	„ Bank ..	1	47 10 -		
	„ Discount ..	1	2 10 -		
<i>Dr.</i>		<i>R. Green</i>		<i>Folio 6. Cr.</i>	
1930			£ s. d.		
Mar. 9	To Bank ..	1	140 - -		
„ 10	„ Cash ..	1	20 - -		
<i>Dr.</i>		<i>Discount</i>		<i>Folio 7. Cr.</i>	
1930			£ s. d.	1930	
Mar. 10	To Sundry Dra.	1	13 6 -	Mar. 10	By Sundry Crs.
				1	7 10 -

REVIEW

It is useful at this stage in your practice in posting to pause and review, and, incidentally, check what has been done. All the items which appear on the debit side of the Cash Book (Cash and Bank columns) appear also in other accounts in the Ledger, but on the opposite (i.e. credit) side. The contra items are completed in the Cash Book itself. All the items in the Discount Columns of the Cash Book appear on *both* sides of accounts in the Ledger: on one side as detailed items

and on the other in a summarised total. Those items which are noted on the left-hand side of the Cash Book Discount column have been posted, so as to record the two-fold aspect in the Ledger—on the debit side they are included in the total posted to the Discount Account, and, on the credit side, they are posted as separate items in the personal accounts concerned. Thus it will be seen that the summarised total of discounts posted to the debit side of the Ledger is equal to the sum of the separate discount items posted to the credit side. The process is reversed in dealing with the items and total of the discount shown on the credit side of the Cash Book. For the purpose of displaying clearly the details of discount double entry, each discount item has been shown separately in the respective personal accounts in the illustrative exercise, but these items would normally be combined with the Cash or Bank posting.

TRIAL BALANCE

The next step is to prove, as far as can be done, the accuracy of the posting. The method of proof is known as taking out a Trial Balance. A Trial Balance is compiled by listing all the balances of accounts in the Ledger (which, of course, *include the Cash and Bank balances in the Cash Book*) so as to show opposite the name of each account the amount of the balance of that account. If the debit side of an account is greater than the credit side, the difference, i.e. the balance, goes into the debit column of the Trial Balance; if the credit side is greater, then the balance goes into the credit column of the Trial Balance. Proceeding to carry out the foregoing instructions we get the following :

Trial Balance, 10th March, 1930

	Dr.			Cr.		
	£	s.	d.	£	s.	d.
B. Mair				135	-	-
J. Smith				121	-	-
H. James				45	-	-
M. Wilson				30	-	-
H. Jones	150	-	-			
R. Green	160	-	-			
Discount	5	16	-			
Cash	9	16	-			
Bank	5	8	-			
	<hr/>			<hr/>		
	£331	-	-	£331	-	-
	<hr/>			<hr/>		

EXERCISE 8

Rule out a three-column Cash Book, enter the following transactions, post, and extract a Trial Balance :

1923

Jan. 6—The proprietor invested in the business, Cash		
£110, Bank	.. .. .	£120
.. 8—Received from H. Smith £20 in treasury notes, and allowed him discount £2.		
.. 9—Sent Charles Jones a cheque for £90, discount £4.		
.. 16—Received cheque from Rhodes & Co. ; paid into Bank at once	.. .. .	25
.. 21—Paid into Bank	.. .. .	30
.. 24—Received cheque from L. Smith & Co. ; paid it into Bank	.. .. .	42
.. 27—Mills & Co., paid their account by cheque (£160). Discount allowed, £3. Cheque was paid into Bank on the same day.		

Fill in and carry down the cash and bank balances, and total the discount columns. *Note* : The Proprietor's Capital Account is credited with Cash £110 and Bank £120.

EXERCISE 9

Record the following transactions in a three-column Cash Book :

Jan. 2—The proprietor invested in the business,		
Cash £4 18s. 6d., Bank	.. .. .	£348 12 10
.. 3—Drew from the Bank for office cash	.. .. .	30 - -
.. 4—Paid Great Eastern Railway, in cash	.. .. .	1 12 6
.. 4—Paid Peter Jones by cheque £28 4s., discount	.. .. .	1 15 11
.. 5—Received from B. Gregory & Co., Ltd., cheque in settlement (less 15s. 6d. discount), which was paid into Bank	.. .. .	49 4 6
.. 6—Paid from office cash, wages	.. .. .	8 12 6
.. 6—Cashed cheque for customer ; paid it into Bank	.. .. .	12 - -
.. 7—Received in cash from B. Bolton	.. .. .	1 2 6

Post to the Ledger and take out a Trial Balance.

EXERCISE 10

Enter the following transactions in the appropriate columns of the Cash Book :

1930

Mar. 15—Received Cash from J. Morton, £76 ; allowed him £4 discount	
.. 16—R. Crawford paid his account of £30 less 5% discount.	
Paid, by cash, B. Dunn's account of £5 less 5% discount.	

1930

Mar. 17—H. Lawson paid £57 by cheque in settlement of his debt of £60 ; balance allowed him as discount. The cheque was paid into Bank at once.

Paid into Bank, £60.

Cleared indebtedness of £100 to A. Hope by paying, by cheque, £97 10s., 2½% discount having been allowed.

.. 18—J. Morton paid me cheque for £25, which was paid into Bank. Paid by cheque to B. Dunn, £38. Discount allowed by him, £2. Received £25 in cash from R. Crawford.

.. 19—Paid R. White in cash, £9 10s. He allowed 10s. discount.

.. 20—Received and paid into Bank cheque for £30 from J. Morton. Paid into Bank, £35.

Complete double entry by posting to the Ledger. Extract Trial Balance.

EXERCISE 11

Enter the following transactions in the appropriate columns of the Cash Book :

1930

April 1—J. Fry paid by cheque £95 ; allowed him £5 discount. The cheque was paid into Bank.

Sent S. Richards cheque, £47 10s., in full payment of his account of £50 ; the balance was allowed as discount.

.. 2—Paid T. Law £40 by cheque, on account. Received from M. Duff, and paid into Bank, cheque for £57 ; allowed him £3 discount.

.. 3—R. Cole paid, by cash, £27 in settlement of his account of £30 ; the balance was allowed as discount.

C. Hope paid £10 on account of the sum due by him.

Paid £30 into Bank.

.. 4—Paid F. Dawson by cheque £41.

.. 5—Paid £47 10s. to T. Law by cheque in settlement of his account.

.. 6—Received cash from C. Hope, £27, in payment of the balance due ; allowed him £3 discount.

.. 7—Received and paid into Bank cheque for £85 10s. from J. Fry ; allowed him £4 10s. discount.

Complete double entry by posting to the Ledger. Extract Trial Balance.

EXERCISE 12

Record the following transaction in the Cash Book and post to suitable ledger accounts. Extract Trial Balance.

1935					£	s.	d.
April 1—Cash in Hand	..	..	..	..	32	1	5
Cash at Bank	..	..	..	..	479	18	6
Received cheque from J. Smith	..	..	..	..	92	1	7

1935		£	s.	d.
April	2—Cash Purchases	25	6	4
	Cash cheque for office cash	20	—	—
	Cash Sales	35	19	2
„	3—Paid into Bank	128	0	9
	Received cheque from D. Dunn	28	4	0
	Sent cheque to J. Green	57	6	2
	Cash Sales	41	6	10
„	4—Paid into Bank	69	10	10
	Bought stamps	2	—	—
	Received cheque from A. Allen	42	12	3
„	5—Gave cheque for typewriter (Office Furniture)	23	10	—
	Cash Sales	68	12	5
	Sent cheque to D. Dunn	115	6	4
	Received cheque from W. White	54	17	3
	Paid White's cheque and the proceeds of cash sales into Bank.			
„	6—Drew from Bank for office cash	30	—	—
	Paid wages in cash	26	3	7
	Paid carriage in cash	1	2	5
	Cash Sales	13	5	2

Balance the Accounts, bring down the balances and enter the following transactions :

EXERCISE 13

1935		£	s.	d.
April	8—Received cheque from J. Roberts	39	12	3
	Paid into Bank	40	0	0
	Paid cash for 2 Office Chairs	1	10	—
„	9—Sent cheque to J. Green	12	13	7
	Cash Purchases paid by cheque	34	6	—
	Received cheque from J. Smith	27	2	11
	Cash Sales	38	12	5
	Paid into Bank	60	—	—
	Sent cheque to J. Green	42	1	8
„	10—Received cheque from A. Allen	28	15	1
	Received cheque from W. White	35	2	9
	Both cheques paid into Bank.			
„	11—Paid carriage in cash	—	11	7
	Paid Rates by cheque	39	6	6
	Received money order from K. Black	12	3	—
„	12—Paid telephone account by cheque	11	7	5
	Cash Sales	73	5	10
	Paid into Bank	80	—	—
	Paid D. Dunn by cheque	137	2	11
„	13—Drew cheque for office cash	30	—	—
	Paid wages in cash	26	3	7
	Paid cleaner in cash	1	—	—

Extract Trial Balance.

BUSINESS TERMS AND ABBREVIATIONS

Sole Trader.—A person who conducts his business entirely on his own account, as distinct from a concern controlled by a group of persons or a limited company.

Trade Discount.—An allowance made from the selling price, according to custom between merchants. This allowance is usually made by a manufacturer to a wholesaler or retailer, or by a wholesaler to a retailer. This discount does not depend upon prompt payment, but operates in any event. It is really a reduction in the price, and no detailed record is necessary in the books of account.

Assets.—Any property, such as desks, counters, show cases, moneys, etc. Fixed assets are those used for the purpose of earning income—machinery, plant, horses, carts, etc. Floating, or circulating, assets are those acquired with the object of subsequent conversion into money. The merchandise in which a business deals is the best example of this type of asset.

Liabilities are debts of obligation ; claims upon the assets of the business. Sooner or later some of the assets, usually in the form of cash, must be given in payment. If John Smith, retail grocer, purchases goods for which he promises to pay in thirty days, he incurs a liability. The person from whom the purchase was made has a claim upon his assets until he pays.

Solvency.—To be solvent means to be able to pay 20s. in the pound ; in other words, that the total amounts owing to the business and the value of the other business assets are equal to or exceed the liabilities of the business.

f.o.r. = free on rail. A term met with in quotations for goods. This means that the goods purchased are placed on the rail by the seller and that no risk is undertaken or charges incurred by the customer until this has been done.

f.o.b. = free on board. A term used in quotations for goods. The seller undertakes to place the goods safely on board ship, and to pay all expenses up to this point.

c/f = carried forward (when matter is continued on a new page).

b/f = brought forward (used to show that the matter following is brought forward from the preceding page).

c. i. f. c. and i.—Cost, insurance, freight, commission and interest. In foreign trade it is usual to state on the invoice exactly what the amount charged represents. In this case it includes all the items mentioned.

cf., cp. = Compare.

Invoice.—A business document which gives particulars of quantity (volume, weight, or measurement), quality, and price of goods sold, information about the charges on each package and the contents, and also indicates how goods are dispatched. Here is a specimen :

Telephone: No. 1628
Telegrams: "Lino"

75 NORTH WOODSIDE STREET,
LEICESTER.
January 7th, 1924.

Messrs. H. C. Mason & Co
25 Rowbank Street,
Birmingham.

Bought of THE BRITISH LINOLEUM COMPANY, LTD.
Terms : 10%, and 2½% discount prompt cash.

	£	s.	d.	£	s.	d.
50 Full rolls of Cork Linoleum, 50 sq. yds. each	300	—	—			
50 Three-quarter rolls of Cork Linoleum, 37½ sq. yds., each	225	—	—			
50 Half rolls Cork Linoleum, 25 sq. yds.	150	—	—	675	—	—
				<hr/>	<hr/>	<hr/>
				£675	—	—

Delivery : L.M.S. Rly.
E. & O. E.

(Errors and omissions excepted.)

Statement of Account.—This is a copy of the personal $\frac{a}{c}$ as it appears in the Ledger of the trader who sends it ; or it may contain only the dates and amounts of each invoice sent in since the last settlement. It is customary to render a statement on the first of each month.

CHAPTER II

SUBSIDIARY BOOKS—PURCHASES—PURCHASES RETURNS—SALES—SALES RETURNS

ALL the transactions dealt with in the preceding lessons involve cash in one form or other. This lesson will be mainly concerned with transactions in which no cash passes at the time the records require to be made. There are many of this kind, and they are of such variety that it is necessary to classify them, according to their nature, before attempting to enter them in the Ledger. The memorandum books used for this purpose are called Journals (Latin—*diurnus*, meaning “daily”), and in these books the book-keeper can make a record soon after the transaction has taken place. The information is thus ready to be entered into the proper Ledger accounts at a more convenient time and in proper classification. Because the books aid the book-keeper to collect information ready for posting to the ledger, they are called Subsidiary Books—they are subsidiary to the ledger. These Journals are of two classes—general and special.

The special journals are usually called “Books,” or “Day Books” and are identified by the name of the transactions recorded in them. For example, there are :

Purchases or Bought Day Books, containing details of goods bought.

Sales Day Books, in which are entered particulars of goods sold.

Details are entered in these books when goods bought or sold are not paid for at once, that is, purchases or sales “on credit.”

If the goods are paid for at once and the book-keeper has details of the transaction, including the name of the person, it is a good plan to record the transaction in the appropriate Day Book and enter the cash in the Cash Book in the usual way. This should certainly be done if the person already has an account.

These books or journals, together with the Cash Book, are the books of original entry required in an ordinary merchant's

office. It should be clear that books of original entry are really records in which a preparatory assignment of debits and credits is made. Apart from cash and bank receipts and payments, it is not desirable to enter transactions direct in the Ledger Accounts. Consequently, a preliminary entry is made in a journal, and this entry serves as a posting medium.

The ruling of a simple form of Purchases Day Book is shown below.

This should be copied into a journal of suitable ruling.

Purchases Day Book—Simple Form Fol. 1

1935		L.F.	£	s.	d.	£	s.	d.
June 7	WILSON & Co. :	1						
	400 Morocco grain Letter Cases at 2/6 each ..					50	-	-
.. 7	BLACKSTONE & WESTON :	2						
	50 Marquise cloth Cushion Cases at 2/- each ..					5	-	-
.. 8	FULTON & BOYLE	3						
	272 Table Centres, first quality gauze, hand painted in variety of floral designs at 2/6 each ..		34	-	-			
	70 hanks of mercerised Cotton at 1/- each ..		3	10	-	37	10	-
.. 9	MURRAY & RICHARDS :	4						
	260 yards unbleached Table Damask at 2/- per yard		26	-	-			
	100 light-weight bric-à-brac Dusters, size 30" × 30", at 12/- a dozen ..		5	-	-	31	-	-
.. 10	ECCLES & SHAW :	5						
	80 Turkish-towelling Bath Mats at 5/- each ..		20	-	-			
	30 rubber-composition Mats at £1 each ..		30	-	-			
			50	-	-			
	Less 5 per cent. trade discount		2	10	-	47	10	-
	Purchases % Dr.	6				£171	-	-

This is a record of the goods a merchant has bought. The date is shown, and then there is the particulars column, showing the name of the firm from whom the purchase was made (this name should be close up to the line dividing off the date column), followed underneath by the details of the purchase made—particulars, quantity, and number.

These details are usually to be found on an invoice sent by the seller.

The next column is allotted to the Ledger Folio—that is to say, the number of the page in the Ledger to which the purchase is posted.

The inner £ s. d. column is provided for the purpose of entering prices of the details of the purchases as shown ; and the outer column gives clearly the total amount.

The inner column is particularly valuable where two or three different kinds of purchases have been made at the same time, because it shows the cost of each.

There is one little point here that might be specially noted. Sometimes a form of discount known as trade discount—which is really an adjustment in the price of the goods and is entirely different from cash discount—is allowed on purchases. Whenever this occurs, the gross or list prices of the articles are entered in the details column, and the trade discount is then deducted in the same column, carrying out the net amount of purchases to the final column.

In many businesses it is not necessary to give details of the purchases, in which event only the name of the person is shown and the amount of the transaction. If fuller details of any transaction are required, reference may be made to the invoice, which is preserved for this purpose.

Posting the Purchases Day Book

The Purchases Book should now be posted. Open accounts in the Ledger for the persons concerned, and on the credit side enter the date, By Purchases, amount, insert the folio. Insert the Ledger folio in the Purchases Book. The total of the Purchases Book should be posted to the debit side of the Purchases Account in the Ledger—date (end of period), To Sundry Creditors, amount, folio.

The Ledger should now look like this :

Ledger

<i>Dr.</i>	Wilson & Co.	Fol. 1.	<i>Cr.</i>
	£ s. d. | 1935 June 7 | By Purchases .. 1 | £ 50 | s. - | d. -		
<i>Dr.</i>	Blackstone & Weston	Fol. 2.	<i>Cr.</i>
	£ s. d. | 1935 June 7 | By Purchases .. 1 | £ 5 | s. - | d. -		
<i>Dr.</i>	Fulton & Boyle	Fol. 3.	<i>Cr.</i>
	£ s. d. | 1935 June 8 | By Purchases .. 1 | £ 37 | s. 10 | d. -		
<i>Dr.</i>	Murray & Richards	Fol. 4.	<i>Cr.</i>
	£ s. d. | 1935 June 9 | By Purchases .. 1 | £ 31 | s. - | d. -		
<i>Dr.</i>	Eccles & Shaw	Fol. 5.	<i>Cr.</i>
	£ s. d. | 1935 June 10 | By Purchases .. 1 | £ 47 | s. 10 | d. -		
<i>Dr.</i>	Purchases	Fol. 6.	<i>Cr.</i>
1935 June 10	To Sundry Crs. 1 | £ 171 | s. - | d. -		

The personal accounts above have been credited with the amount of the goods the business has bought from the various people because those people were the *givers* of the goods, and an important rule of posting (given in the first chapter) is "credit the giver." The Purchases account has been debited because the business has *received* the goods, and another rule of posting is "debit value received." Because the business has received *all* the goods, the total can be debited instead of debiting the individual amounts.

EXERCISE 14

Write up the Purchases Day Book of the Marcus Fur Co., Ltd., post to the Ledger.

1935

- Mar. 7—Bought of Ronski & Evanoff, Leningrad, 6 Bear Muffs @ £1 10s. each, and 3 Fox Muffs @ £3 5s. each. Bought of Bishop Brothers 2 dyed Musquash Coats @ £12 each.
- .. 8—Bought of Harrison Bros. 6 Stoles @ £5 each.
- .. 10—Dempster & Elliott invoiced 12 Marmot Muffs @ £1 2s. each ; 12 Astrachan Muffs @ £2 each, less 5 per cent. trade discount ; 12 Squirrel Muffs @ £2 5s. each, less 5 per cent. trade discount.

1935

- Mar. 15—Purchased from Beaverbrook & Sons 3 Grey Squirrel Ties @ 42s. each, and 3 Silver-grey Muffs @ 45s. each.
- „ 16—Bought of Nelson & Peters 2 fur-lined Motor Coats @ £5 each ; 2 fur-lined Travelling Rugs @ £7 5s. each.
- „ 23—Bought of Maxinoff & Meyer 1 special Stole @ 45s., and 1 Bear Muff @ £2.
- „ 29—Bought of Fretron Frères, Amiens, 1 Sable Stole @ £15, and 1 Sable Muff @ £10.
- „ 31—Bought of Balatski Brothers, Moscow, 3 Caracul Coats @ £7 5s. each ; 48 Balatski Ties @ 22s. a dozen. Bought of Gertrude Daimler, 1 Astrachan Muff @ 32s., and 1 Skunk Stole @ £2.

EXERCISE 15

Enter these transactions in the Purchases Day Book. In business, when compiling invoices, partial products are usually made out to the nearest penny. Work this exercise accordingly. Post to the Ledger.

1936

Feb. 1—Bought of the Civil Service Stores :

29 yards Japanese Silk	@ 3/10 per yard
45 „ Dyed Shantung	@ 5/3 „
20 „ Silk Georgette	@ 6/6 „
80 „ Luvisca	@ 3/11½ „
10 „ Crêpe-de-Chine	@ 12/11 „
120 „ White Voile	@ 1/9 „

„ 4—Purchased from Smith & Sons, Ltd. :

10 Damask Cloths, 2½ yds. × 3½ yds. ..	@ 92/3 each.
5 doz. Table Napkins, 27 in. × 27 in. ..	@ 69/- per doz.
500 printed Table Cloths	@ 1/9 each
25 Duchess Sets	@ 8/6 per set

„ 5—Jones & Jones sold to us :

23 yards Scarlet Flannel	@ 2/9½ per yard
50 „ Pyjama Flannel	@ 3/- „
25 „ All Wool Shirting	@ 4/3 „
75 „ Ceylon Flannel	@ 1/9½ „
123 „ Army Flannel	@ 1/4½ „

„ 7—Bought from Civil Service Stores :

143 yards Real Cluny Lace	@ 9d. per yard
25 „ „ „	@ 3/3 „
90 „ English Longcloth	@ 7½d. „
250 „ „ Edging	@ 3½d. „

The Purchases Day Book

In practice there are different methods of keeping this book. Sometimes the invoices are pasted into an Invoice Guard Book after each invoice has been so folded as to leave visible the name of the firm by whom it has been sent. The amount is extended into money columns ruled on the right-hand side. There may be several sets of money columns designed to analyse the expenditure. The first money column may detail the cost of stores, the second may deal exclusively with fuel, and the third belting, and so forth. The advantage of this analysis is that time is saved when posting to the respective Ledger accounts at the end of each month or quarter, and more will be said about this later.

The main point to remember is that the *Purchases Day Book* is one of the auxiliaries into which is entered a record of *all goods bought on credit* for resale and goods bought for cash for resale *where the name of the seller is given*.

Purchases Returns Book

In the course of business it is often necessary, for various reasons, to return goods to the seller. It may be that two of the mats you purchased from Eccles & Shaw on June 10th (see p. 86) on examination are found unsatisfactory, not being up to the sample or damaged in some way or other. You would probably return the two mats as unsatisfactory, and Eccles & Shaw would allow you the cost.

At first thought one might think that the amount of the goods so returned should be deducted from the amount of the purchase, but that is not usually practicable and would lead to endless confusion in business. The entry regarding the purchase has been made in the Purchases Book already and posted to the Ledger, therefore the return of goods is treated as an entirely separate transaction.

Pay attention to this principle, because it operates throughout Book-keeping. As a rule, figures are not altered, although they be incorrect. New entries are passed through for the purpose of adjustment.

A Purchases Returns Book, or Returns Outwards Book as it is sometimes called, is kept and the ruling can be the same as the Purchases Book.

If some of the goods bought on June 9th and 10th (page 86)

were returned, the Purchases Returns Book would look like this :

PURCHASES RETURNS BOOK						Fol. 1		
1935		Fol.	£	s.	d.	£	s.	d.
Junell	ECCLES & SHAW :	5						
	2 Rubber-composition Mats							
	@ £1 each ..		2	-	-			
	Less 5% Trade discount ..		-	2	-	1	18	-
„ 12	MURRAY & RICHARDS :	4						
	50 dusters @ 12/- a dozen					2	10	
	Purchases Returns Cr. ..	7				£4	8	-

The above can now be posted and the Ledger should read :

Ledger				Fol. 1.		
Dr.	Wilson & Co.				Cr.	
	£	s.	d.	1935 June 7	By Purchases .. 1	£ 50 s. - d. -
Dr.	Blackstone & Weston				Fol. 2.	Cr.
	£	s.	d.	1935 June 7	By Purchases .. 1	£ 5 s. - d. -
Dr.	Fulton & Boyle				Fol. 3.	Cr.
	£	s.	d.	1935 June 8	By Purchases .. 1	£ 37 s. 10 d. -
Dr.	Murray & Richards				Fol. 4.	Cr.
1935 June 12	To Purchases Returns .. 1	£ 2 s. 10 d. -	1935 June 9	By Purchases .. 1	£ 31 s. - d. -	
Dr.	Eccles & Shaw				Fol. 5.	Cr.
1935 June 11	To Purchases Returns .. 1	£ 1 s. 18 d. -	June 10	By Purchases .. 1	£ 47 s. 10 d. -	
Dr.	Purchases				Fol. 6.	Cr.
1935 June 10	To Sundry Creditors .. 1	£ 171 s. - d. -				
Dr.	Purchases Returns				Fol. 7.	Cr.
	£	s.	d.	1935 June 12	By Sundry Creditors . 1	£ 4 s. 8 d. -

The personal accounts have been debited with the returns because these people have *received* the goods returned. The purchases returns for the period have been totalled and the total has been posted to the credit of the Purchases Returns Account because the goods have been sent out from the business—value has been *given*. When a Trial Balance of the ledger is prepared it will be :

TRIAL BALANCE

June 12, 1935

	Fol.	Dr.			Cr.		
		£	s.	d.	£	s.	d.
Wilson & Co.	1				50	—	—
Blackstone & Weston	2				5	—	—
Fulton & Boyle	3				37	10	—
Murray & Richards	4				28	10	—
Eccles & Shaw	5				45	12	—
Purchases	6	171	—	—			
Purchases Returns	7				4	8	—
		<hr/>			<hr/>		
		£171	—	—	£171	—	—
		<hr/>			<hr/>		

Care should be taken that when goods are returned any trade discount allowance received at the time of purchase is deducted when dealing with returned goods.

EXERCISE 16

From the following particulars prepare the Purchases Return Book of G. Lucas, stationer. Post to the Ledger.

1935

- April 1—Returned to Moss & Co. 3 reams Arcadia Dawn Note-paper (damaged through faulty packing), invoiced at 7/6 a ream.
- „ 6—Returned to Sexton & Co. six Rombosh Lever Self-filling Pens (defective levers), invoiced at £1 15s.; two dozen memorandum books, invoiced at £2 10s. ("not as ordered").
- „ 23—Returned to Black & Foster, Ltd., 6 japanned and bronze-fitted Lever Embossing Presses (defective mechanism), invoiced at £2 3s.; 6 Wax Sealing Outfits ("not as ordered"), invoiced at £1 3s. 9d.
- „ 30—Returned to Ralph Melling & Sons, 24 Royal Auction Bridge Blocks (ruled one side only), invoiced at £2 1s.

EXERCISE 17

The following transactions should be entered in the Purchases Day Book and Purchases Returns Book. Make out the

necessary Ledger Account headings, post and prepare a Trial Balance.

1935

- May 1—Bought of Gamages, Ltd., 3 Prism Binoculars @ £5 5s. each
 „ 2—Returned one Binocular, being damaged.
 „ 5—Purchased of Smithsons, Ltd. :
 6 Pike Spinning Rods @ 90/6 each
 10 Trout „ „ @ 50/3 „
 25 Salmon Reels @ 12/6 „
 30 Sea Rods @ 25/9 „
 „ 7—Returned to Smithsons as damaged :
 1 Pike Spinning Rod.
 5 Salmon Reels.
 10 Sea Rods.
 „ 10—Kodaks sold to us :
 2 Brownie Enlargers @ £1 each
 5 Kodak Self-timers @ 5/- „
 1 "Popular Pressman" Camera @ £19, less 10% trade discount.
 „ 12—Returned the Kodak Self-timers as not up to specification, and received 5 new Cascade Washers in return.
 „ 15—Received from Civil Service Stores 10 "Holborn" Tripods @ 45/- each, less 5% trade discount. One returned as damaged, for which a credit note was received on May 17th, 1935.

Purchases and Purchases Returns having been dealt with, Sales must be considered. The main object of being in business is to make profit, and it was mentioned in the first chapter that one of the ways of doing this was by selling goods at a greater price than the cost of purchase.

The ruling of a simple form of Sales Book is the same as the Purchases and Returns Books already considered. If some of the goods bought and recorded in our Purchases Book on page 86 have been sold, our Sales Book would be :

SALES BOOK

1935			Fol.	£	s.	d.	£	s.	d.
Dec. 1	Brown, John	..	1				60	-	-
„ 3	Jones Bros.	..	2				10	10	-
„ 5	Williams & Co.	..	3				71	15	6
	Smith, Alec	..	4				9	2	-
„ 6	Herbertson, S.	..	5				24	17	2
	Sales A/c	Cr.	6				£176	4	8

This is the simplest form of Sales Book. Details of a sale can be given, if desired, immediately below the customer's name.

EXERCISE 18

Write up the Sales Day Book of Richard Dixon, printers' furnisher, from the following particulars :

1936

- Jan. 3—Sold to Potts & Jameson 300 Composing Sticks @ 4/6 each.
 „ 4—Invoiced (sold) Renfrew Bros. 540 brass Galleys at 30/- a dozen.
 „ 8—Received an order (which was completed at once) from Pillsbury & Sons for 24 Chases at 15/- each, and 94 Screw Keys at 1/6 each.
 „ 10—Sold to Mason & Sons 60 dozen Pica Reglets at 4/6 a dozen.
 „ 11—Sold Parker & Thomas 2 dozen Tweezers at 9d. each, and 2 dozen Bodkins at 4d. each.

Post to the Ledger.

EXERCISE 19

From the following particulars write up the Sales Day Book of Jefferson & Bell, and post the transactions to the Ledger.

1936

- Feb. 1—Sold to the United Fisheries Co., Ltd., 200 boxes of Fish Dressing at 25/- a box.
 „ 2—Invoiced to Maxwell & Sons, 2 tons of Rusks at 9/4 a cwt. (Pane rusko brand).
 „ 5—Sent to Phillips & Chalmers, 60 dozen bottles of Sauce (Show Season's brand), at 11s. 6d. a dozen.
 „ 6—Sold to Workman & Littlejohn, 540 packets of Spice at 2/- a dozen.
 „ 7—Sold to Redfern & Singer, 720 jars of Bloater Paste @ 4/6 a dozen.

Sales Day Book

As in the case of the Purchases Book, cash sales should not be included except where the name of the seller or customer respectively is given, but should be dealt with in the ordinary way through the Cash Book. Where the name of a customer is given, the details are passed through the Sales Book as well as the Cash Book, the Sales Book showing the sale of the goods and the Cash Book the receipt of the cash, one object being to cause the customer's account to show a full record of his dealings with the business, and the proprietor is able to compare the sales to this particular customer in one year as against another. Suppose, for example, at the end of 1935 you had sold £1,000 worth of goods to Brown and you found that his total purchases in 1934 amounted to £1,500. This state

Another advantage is when a customer asks for a repeat of his previous order. It is easy to realise that there would be real danger of error if the previous transaction had not been entered through the Sales Book.

If the goods sold are unsatisfactory for any reason, the customers will return them. The bookkeeper will record such returns in a Sales Returns Book or Returns Inwards Book.

Sales Returns Book

The full price is not always allowed for returns. The book-keeper will deal with the amount allowed, usually obtained from a copy of the credit note sent to the customer. An adjustment must be made for any trade discount allowed on the sale. This must not be forgotten : in practice it may be costly ; in examinations valuable marks will be lost.

When posting the Sales Returns Book the personal accounts are credited because the customers have given value and the total returns periodically will be debited to Sales Returns account to complete the double entry.

EXERCISE 20

From the following particulars prepare the Sales Returns Book of James Fitzhugh & Son :

1936

- Mar. 21—Returned by Livingstone Bros. half a dozen Buckets and Mops ("not as sample"), invoiced at £1 10s.
 .. 22—Returned by Machin & Co. 2 whitewood Cupboards, invoiced at £3 ("not as ordered").
 .. 24—Returned by Ramsay & Boswell 2 Knife Machines ("defective mechanism"), invoiced at £1 5s.; 6 rubber composition Mats, 36" × 22" and 33" × 20" (wrong sizes), invoiced at £1 10s.
 .. 29—Returned by Cousins & Colman, 16 oak corner Wardrobe fixtures (curtain rails broken—hooks wrong size), invoiced at £2.
 .. 31—Returned by Felman & Symons, 12 hardwood Clothes Airers (folding mechanism defective), invoiced at £2 10s.

Post to the Ledger.

EXERCISE 21

From the following details prepare C. White's Sales Book and Sales Returns Book. Post, and extract a Trial Balance.

		£	s.	d.
1936				
Mar.	3—Sales to Jones Bros.	50	10	—
	Sales to Bolsom & Co.	20	3	4
..	4—Lunder & Sons bought goods	19	15	—
..	5—Jones Bros. bought goods value £29 16s. and returned goods bought on the 3rd instant	3	12	—
..	6—J. Lees bought goods	14	6	—

EXERCISE 22

Mr. White is the owner of a wine business. During the week the undermentioned credit transactions took place. You are required to enter them into the Purchases and Sales Books. Post to the Ledger and compile a Trial Balance.

		£	s.	d.
1935				
Dec.	1—Bought goods from J. Robinson	200	—	—
..	2—Sold goods to G. Pink	150	—	—
..	3—Purchased from James Bros. 3 cases of Claret at 84/- a case.			
..	4—Sold 3 bottles of Whisky at 12/6 per bottle to J. Brown.			
..	5—Sold to Brown 1 case of Claret at	4	16	—
..	6—Purchased 12 cases of Whisky from Green- leys at 70/- a case.			

EXERCISE 23

Enter the following credit transactions of J. Cliff in his Purchases and Sales Books :

1936		£	s.	d.
Mar. 4—	Bought goods of T. White	240	—	—
„ 7—	Sold to John Done	120	—	—
„ 9—	Sold to W. H. Pickford	115	—	—
„ 12—	Williams & Co. bought goods	34	—	—
„ 25—	Purchased from Smithson & Sons	40	—	—
„ 27—	Leonards Bros. purchased goods	50	—	—

Post to the Ledger and make a Trial Balance.

EXERCISE 24

Prepare the New Company's simple forms of Purchases Book, Sales Book and Returns Books and enter the following transactions therein. Post to the Ledger and extract a T.B.

1936		£	s.	d.
Jan. 2—	Bought from Atkinson goods value ..	94	—	—
	Sales to Johnson & Co.	30	—	—
	Purchases from Evans	63	—	—
„ 3—	Returns to Atkinson	10	—	—
	Sales to Bergin	17	—	—
	Returns from Johnson	5	—	—
„ 4—	Purchases from Wood Ltd.	120	—	—
	Sales to Bergin	6	—	—
„ 5—	Purchases from Atkinson	32	—	—
	Returns to Wood, Ltd.	6	—	—
	Sales to Stone & Co.	39	—	—
„ 6—	Sales to Stone & Co.	42	—	—
	Returns from Stone & Co.	10	—	—

EXERCISE 25

Enter the following transactions in the appropriate books of Thomas Reason. Post and extract a T.B.

1936		£	s.	d.
Feb. 1—	Sales to Jordan & Jones	90	—	—
	Purchases from Fox	120	10	—
	Purchases from Miner & Co.	40	15	—
„ 2—	Sales to Jordan & Jones	60	—	—
	Jordan & Jones returned goods that were unsatisfactory	6	—	—
„ 3—	Sales to Cymbal Ltd.	50	—	—
	Purchases from Miner & Co.	74	—	—
	Returned goods to Fox	10	12	6
	Johnson Bros. sold Reason	64	—	—

1936	£	s.	d.
Feb. 4—Limes & Co. bought goods	29	—	—
Reason sold goods to Lewis & Lewis ..	50	—	—
„ 6—The goods sold to Lewis & Lewis were reported “arrived damaged through faulty packing.” Reason agreed to allow his customer £15.			

(Allowances are treated the same as returns although goods may not actually be returned. Record in the Returns Book in the usual way.)

BUSINESS TERMS AND ABBREVIATIONS

C/N = Credit Note.—This is a note to intimate to the person to whom it is addressed that he is being credited with an amount, the particulars of which are given. This note is written or typed in red. The amount is generally an allowance for goods returned or damaged, or an overcharge which has been made in error.

Credit Note

218 THREADNEEDLE STREET,
LONDON, *January 11th*, 1924.

Messrs. Robinson & Jay, Newcastle-on-Tyne.

Cr. in A/c with William Oliver & Sons.

By return of goods invoiced January										
2nd	..	..	..	..	..	..	£	12	6	9

D/N = Debit Note. A note giving particulars of the amount debited to the account of the person to whom the note is addressed. It has the opposite meaning to a Credit Note, and is generally used when it has been discovered that goods have been undercharged or an arithmetical error has been made.

RATIONAL BOOK-KEEPING

Debit Note

57 QUEEN VICTORIA STREET, LONDON.

February 18th, 1924.

Messrs. Norman & Sinclair, Liverpool.

Dr. to DUNLOP & BAYLEY, Ltd.

To undercasting of invoice dated February 8th	£	-	10	-
---	---	---	----	---

CARR. PD. = Carriage paid. **Chq.** = Cheque. **Div.** = Dividend.

EXERCISE 26

On March 1st, 1935, C. Read commences business, and borrows from his father, J. Read, £250.

	£	s.	d.
Mar. 1—He becomes tenant of a shop at monthly rent (No entry is necessary)	4	—	—
„ 1—He pays into Commercial Bank	200	—	—
„ 1—Paid cash for shop fixtures	20	—	—
„ 1—Paid G. Ellis for stock in shop, cheque	80	—	—
„ 2—Bought goods from A. Reynolds	30	8	7
„ 4—Paid plate glass insurance		10	6
„ 5—Sold goods to Beale & Co.	10	0	5
„ 5—Sold goods to Ashton & Mills	3	16	4
„ 5—Paid for cleaning shop	3	10	—
„ 6—Receipts per shop till for week	18	5	6
„ 7—Ashton & Mills return goods		2	6
„ 8—Paid to bank	30	—	—
„ 11—Sold goods to Beale & Co.	5	19	7
„ 12—Ashton & Mills pay cash (discount 3s. 10d.)	3	10	—
„ 13—Receipts per shop till for week	19	14	3
„ 13—Paid self for household expenses	2	10	—
„ 13—Paid wages, two weeks	8	16	8
„ 15—Received cheque from Beale & Co., and paid to Bank	15	12	—
Discount allowed		8	—
„ 15—Paid to Bank	15	—	—
„ 15—Paid for advertising	2	10	—
„ 16—Sold goods to Beale & Co.	2	0	5
„ 16—Bot. goods from A. Reynolds	5	4	9
„ 18—Paid rates by cheque	4	13	3

	£	s.	d.
Mar. 18—Paid A. Reynolds, cheque (discount 13s. 4d.)	35	—	—
„ 19—Sold goods to Ashton & Mills	14	3	7
„ 20—Receipts per shop till for week	27	6	4
„ 20—Bot. goods from A. Reynolds	4	3	7
„ 24—Sold goods to Beale & Co.	4	6	11
„ 27—Receipts per shop till for week	18	9	2
„ 27—Paid month's rent	4	—	—
„ 27—Paid self for household expenses	3	10	—
„ 27—Sold goods to Beale & Co.	1	18	4
„ 27—Paid wages, two weeks	11	—	—
„ 28—Goods returned by Beale & Co.		8	11
„ 29—Paid for repairs to premises	4	13	6

Enter in proper books, and prepare Trial Balance.

The £2 10s. 0d. paid to C. Read on the 18th should be posted to the debit side of C. Read's Drawings Account in the Ledger.

EXERCISE 27

Alfred Gibson commenced business as a stationer on January 1st, 1936, with cash, £200. His transactions during the month were :

	£	s.	d.
Jan. 1—Paid cash for stock	30	—	—
„ 1—Paid into Bank	150	—	—
„ 2—Bought for cash, handcart	3	15	—
„ 3—Purchased goods from Snalesgrove & Co. ..	20	—	—
„ 4—Cash sales	12	—	—
„ 5—Sold goods to Thomas Moore	5	10	—
„ 6—Bought goods from Alfred Robertson ..	16	—	—
„ 7—Sundry cash sales	15	—	—
„ 7—Paid Snalesgrove & Co. the amount of their account, by cash, less 2½ per cent. discount.			
„ 9—Received cash from Thomas Moore in settlement, less 2½ per cent. discount			
„ 10—Sundry cash sales	10	—	—
„ 11—Bought goods from L. Stephen	30	—	—
„ 12—Sold goods to James Rankin	3	17	6
„ 13—Paid L. Stephen his account (£30) by cheque, less 2½ per cent. discount.			
„ 14—Cash sales	8	—	—
„ 18—Bought goods from F. Voulger	10	—	—
„ 22—Paid wages in cash	12	6	—
„ 24—Paid into Bank	25	—	—
„ 25—Cash sales	10	10	—
„ 31—Received cheque from James Rankin, in settlement of his account, less 2½ per cent. discount.			

Enter in proper books, and prepare Trial Balance.

CHAPTER III

JOURNAL

FORMERLY the only book of original entry was the Journal. In it were entered all transactions in debit and credit form. For example, a purchase of goods valued £56 from John Smith, would be entered as follows :

				<i>Dr.</i>	<i>Cr.</i>
1935			L.F.	£	£
Oct. 4	Purchases A/c	. . . . .	<i>Dr.</i>	56	
	To John Smith	. . . . .			56

The account debited was always entered first, and the record showed the twofold effect of each transaction. All transactions recorded in this way are written four times, twice in the Journal and twice in the Ledger. The use of other subsidiary books, such as those which you already have had, Cash, Purchases, Sales and Returns, enables the work of recording to be subdivided and allotted to different employees ; a saving of time and work is also effected, as each transaction is recorded twice only, once in the subsidiary book and once in the Ledger. The double entry is completed by posting the totals of the subsidiary books. Although almost all the transactions of a business can be entered in other subsidiary books, there usually remain some miscellaneous items which must be entered in the Journal. What goes into the Journal is determined by the other subsidiary books used. One may summarise the position by saying that all transactions which cannot properly be entered in one of the other subsidiary books must be entered in the Journal.

Journal Opening Entries

Another important function which the Journal Proper performs is that of recording opening entries. These entries consist of debit and credit balances. At the time of recording, the debit balances represent the assets of the business and the

The Proprietor's Capital supplied to Office Cash £50 10s.

1924						Fol.	£	s.	d.	£	s.	d.	
Jan. 1	Cash .. ..	..	..	Dr.			50	10	—		50	10	—
	To Capital .. ..	..	..	..						

The same process applied to the other items would result in entries showing :

					Fol.	£	s.	d.	£	s.	d.
Bank	..	..	..	Dr.							
To Capital	..	..	..					
Stock	..	..	..	Dr.							
To Capital	..	..	..					
Office Furniture and Fittings	..	..	..	Dr.							
To Capital	..	..	..					

And so on. While care is always taken that essential details are included in the book-keeping records, *unnecessary* duplication is always avoided. Consequently, instead of repeating the Capital Account entry after each item the modern practice is to make in opening entries one Journal entry debiting each asset and one crediting capital. Wherever the capital is not stated, as in Exercise 28, it is ascertained by subtracting the liabilities from the assets. The opening entries for Exercise 28 would be journalised as follows :

				Fol.	Dr.			Cr.		
					£	s.	d.	£	s.	d.
1924										
Jan. 1	Cash	..	..	Dr.	50	10	-			
	Bank	..	..	"	600	-	-			
	Stock	..	..	"	1,000	-	-			
	Office Furniture	..	..	"	500	-	-			
	Plant and machinery	..	..	"	925	-	-			
	Alan Benson	..	..	"	42	-	-			
	J. Walters	..	..	"	22	-	-			
	M. Morton	..	..	"	35	-	-			
	To Capital	..	..					3,174	10	-
	(Assets and liabilities at this date.)				£3,174	10	-	£3,174	10	-

Posting the General Journal Opening Entries

Open accounts in the Ledger for all the debit items and on the debit (left) side enter the date, "To Balance," and the amount. In the folio column of the Journal place the number of the page in the Ledger to which the entry has been posted, and in the folio column of the Ledger Account place the number of the page of the Journal from which the posting has been made. The credit items will be posted similarly, but, of course, on the credit side of the Ledger Accounts, and in the details column "By Balance" should be inserted. Be particularly careful to insert the folios.

Posting Other General Journal Entries

The debit side of the entry will be posted to the debit side of the Ledger Account named in the details column. Take this Journal entry :

To post—go to the Rent Account in the Ledger, to the debtor side, and complete as under :

Do not forget the folio in the Journal.

Insert Ledger folio in Journal.

In some businesses the Purchases and Sales and other subsidiary books are posted at the end of each month by means of entries through the Journal Proper. The principle underlying this procedure is that the Journal Proper is the main book of original entry, and that all the other books are sections of the Journal engaged in collecting details for the Journal Proper, which is the connecting link with the Ledger. When the totals are put through the Journal in this way the Journal shows the total amount of business done, the same as if the separate entries had been made in the Journal Proper. The principle is sound, and a proper understanding of it may be helpful to the student, particularly when he reaches the stage of studying self-balancing Ledgers. On the other hand, there is the criticism that only one-half of each of these Journal entries is posted, and that this is apt to cause confusion.

Great care is necessary if errors are to be avoided in posting. Here is a suggestion which ensures checking of each item twice, and, although it may seem a slow method, in actual practice time is saved, as the chance of making errors is greatly reduced.

The process is simple, but the explanation is of necessity rather cumbersome. As an example, take the posting of an item from the Sales Book to the Ledger. Post the item. Look at the number of the Ledger page. *Look back at the Ledger entry just made*; turn to the Sales Book, look at the item which has been posted. This is No. 1 check. In the Sales Book put in the Ledger folio. Look at the Sales Book *folio*, then look back at the item in the Sales Book, look again at the item in the Ledger, and insert the Sales Book folio. Thus the posting is checked twice. A little practice is all that is necessary to acquire this good habit. It is essential that the eyes should be taken away from the item posted so as to get a fresh view each time.

The Order of Posting

- (1) Journal opening entries.
- (2) Purchases Day Book and Returns Outwards Book.
- (3) Sales Day Book and Returns Inwards Book.
- (4) Cash Book.
- (5) Bills Books (to be referred to later).
- (6) Remainder of Journal entries.

SPECIAL POINTS TO NOTE

Be careful to keep the items in the Ledger in date order. Special attention to this point will be necessary when dealing with the Cash Book, Bills Books, and the Journal.

In business, posting is usually done from day to day, and this method should be followed from time to time when dealing with the exercises.

If Trade Discount is deducted from the invoice, see that it is also deducted from the returns.

EXERCISE 28

Carry out the instructions given in the following exercise.

When John Hardie's books were balanced on January 1st, 1924, they showed the following *Dr.* balances and capital :

	£	s.	d.
Cash at office	50	10	-
Cash at Bank	600	-	-
Stocks of goods	1,000	-	-
Office furniture and fittings	500	-	-

	£	s.	d.
Plant and machinery	925	-	-
Alan Benson	42	-	-
J. Walters	22	-	-
M. Morton	35	-	-

(These are what are termed opening entries. Record them in the General Journal. The cash and bank balances, which normally would be entered direct in the Cash Book, are also to be included in the Journal opening entries for the purpose of ascertaining the capital and recording it in one entry.)

1924	£	s.	d.
Jan. 2—Purchased from Wm. Shaw & Sons goods ..	72	-	-
(Terms, 5% for cash, 10 days; 2½% monthly account.)			
Jan. 4—Bought of James Green goods	30	-	-
Jan. 6—Received cheque from Alan Benson in settlement of his account. Discount allowed to him 5% (£2 2s.)	39	18	-
Jan. 7—Paid into Bank	40	-	-
Jan. 7—Sold M. Morton :	£	s.	d.
12 dozen tins of Salmon at 7/-			
a dozen	4	4	-
50 lb. Granulated Sugar at 3d.			
a lb.	12	6	
20 doz. tins Preserved Fruit			
at 8¼ a dozen	8	6	8
Packing Case	7	6	
		13	10 8
Terms 1½% cash in 30 days.			
Jan. 8—Received cheque from J. Walters in settlement of his account	21	9	-
Discount allowed 2½%		11	-
Jan. 9—Paid Wm. Shaw & Sons cheque	68	8	-
Discount allowed 5%		3	12 -
Jan. 10—Bought of James Green goods ..	65	-	-
Jan. 11—Sold J. A. Jenkins :			
9 dozen tins Preserved Fruit at			
9/2 a dozen	4	2	6
3 dozen bottles Pears at 12/- a			
dozen	1	16	-
		5	18 6
Terms net cash one month.			
Jan. 16—Sold Alan Benson 6 dozen tins of Condensed Milk at 10/- a			
dozen	3	-	-
10 doz. tins of Preserved Fruit			
at 8¼ a dozen	4	3	4
Packing case		6	-
		7	9 4
Terms 1½% cash in 30 days.			

Jan. 19—Sold J. Walters :	£	s.	d.	£	s.	d.
16 dozen eggs at 1/2 a dozen		18	8			
60 bars soap at 5/- a dozen ..	1	5	—			
					2	3 8

Terms 2½% one month.

Extract Trial Balance.

EXERCISE 29

Bernard Bates commenced a set of double-entry books on January 1st, 1922. On that date his assets and liabilities were as under :

	£	s.	d.		£	s.	d.
Sundry creditors :				Machinery ..	250	—	—
A. Dean ..	63	1	10	Stock of goods ..	232	18	1
Wilson & Co. ..	45	17	—	Cash in hand ..	59	1	6
Capital ..	600	—	—	Sundry debtors :			
				J. Newsome ..	39	8	3
				Fell & Fell, Ltd. ..	127	11	—

Enter the above in the Journal and post to the Ledger. The transactions during January were as under ; enter these in the Cash Book, Sales Book, and Purchases Book, post to Ledger, and take out a Trial Balance as at January 31st, 1922.

Balance the Cash Book.

1922		£	s.	d.
Jan.	2—Received cash from Fell & Fell, Ltd. ..	100	—	—
	2—Paid cash to Bank ..	110	—	—
	3—Sold goods to Fell & Fell, Ltd. ..	76	13	2
	3—Sold goods to S. Watson ..	39	2	1
	3—Sold goods to Lock & Co. ..	17	11	6
	5—Bought goods from A. Dean ..	29	19	6
	7—Paid wages in cash ..	10	—	—
	7—Withdrew cash for private purposes ..	10	—	—
	8—Paid cheque to A. Dean .. £59 18 9			
	Discount ..	3	3	1
			63	1 10
	12—Received cash from Fell & Fell, Ltd. .. £21 3 6			
	Discount ..	6	7	6
			27	11 —
	14—Received cash from Lock & Co. ..	17	11	6
	16—Sold goods for cash ..	7	16	6
	16—Sold goods to S. Watson ..	41	11	9
	17—Paid cash to bank ..	30	—	—
	18—Bought goods from Wilson & Co. ..	88	12	9

1922			£	s.	d.
Jan.	21—Paid wages in cash		25	—	—
„	21—Withdrew cash from Bank for office use		25	—	—
„	23—Paid cash to A. Dean	£29 4 6			
	Discount	15 —			
			29	19	6
„	25—Received cash from J. New- some	£37 9 —			
	Discount	1 19 3			
			39	8	3
„	26—Sold goods to Lock & Co.		18	17	6
„	26—Bought goods from A. Dean		51	3	3
„	28—Bought goods for cash		18	1	3
„	31—Paid cash to Bank		30	—	—
„	31—Paid to Wilson & Co. cheque on account		25	—	—

(*Union of Lancashire & Cheshire Institutes, 1923.*)

EXERCISE 30

On January 1st, 1915, Mr. Bennett Prentice purchased the business of a boot and shoe dealer for £500. The assets acquired consisted of : Stock, £200 ; Lease, Fixtures, Fittings, and Furniture, £300. He borrowed £400 from his father (Mr. Glover Prentice) ; and after paying for the above assets, he had £100 left in the Bank.

Open the accounts necessary to record the above particulars in Mr. B. Prentice's Ledger ; and post thereto, through the proper subsidiary books, the following transactions :

1915

- Jan. 1—Cash takings, £2 9s. 6d.
 „ 2—Purchased on credit from Mr. W. Whitaker : 2 doz. pairs of brown brogue shoes at 8s. 6d. per pair.
 „ 2—Purchased for cash, brown-paper boxes and string (shop expenses), £1 13s.
 „ 2—Sold on credit to Mr. B. T. Browne : 1 pair of boots, £1 1s. ; 1 pair of dress shoes, 6s. 6d. ; and 6 pairs of boot laces at 2d. per pair.
 „ 2—Cash takings, £6 6s. 9d.
 „ 4—Bought, and paid for by cheque, 6 shop chairs at 10s. 6d. each.
 „ 4—Purchased, on credit, from Messrs. C. M. Moore & Sons : 1 doz. pairs of ladies' boots at 10s. 6d. per pair ; 1 doz. pairs of children's boots at 5s. 6d. per pair ; 1 doz. pairs of gent.'s spats at 3s. 6d. per pair.
 „ 4—Cash sales, £2 6s. 3d.
 „ 4—Drew cash for personal use, £3.

1915

- Jan. 5—Mr. B. T. Browne returned the dress shoes, sold to him on the 2nd, and bought on credit one pair of bedroom slippers, 3*s.* 6*d.*, and 1 pair of spats, 4*s.* 6*d.*
- „ 5—Sold, on credit, to Mr. S. A. Field, 1 pair of military marching boots, £1 5*s.*; and 1 pair of puttees, 7*s.* 6*d.*
- „ 5—Returned to Mr. W. Whitaker, 2 pairs of brown brogue shoes purchased on the 2nd—wrong sizes.
- „ 5—Cash takings, £6 6*s.* 4*d.*
- „ 6—Paid wages in cash, £1 9*s.* 6*d.*
- „ 6—Paid by cheque Mr. W. Whitaker's account, less 2½% discount.
- „ 6—Mr. B. T. Browne paid his account (less 5% discount) by cheque, which was paid into the Bank.
- „ 6—Cash takings, £4 1*s.* 10*d.*
- „ 7—Paid cash in hand into Bank, less £5 retained for incidental expenses.

Balance the Cash Book and Ledger as on January 7th, 1915, bring down the balances, and extract a Trial Balance.

CHAPTER IV

JOURNALISING AS AN AID TO SOLVING BOOK-KEEPING PROBLEMS

THEORETICALLY all transactions can be entered through the Journal, and practice in this method is frequently used by teachers as an introduction to Book-keeping, for the purpose of assisting students to grasp the full significance of double entry. Facility in making journal entries is often materially helpful in solving book-keeping problems. To provide practice of this kind, the following exercises have been included.

The rules regarding Real, Personal, and Nominal Accounts should be kept clearly in mind when dealing with transactions. These rules are :

For Personal Accounts—Debit the receiver ; credit the giver.

For Real Accounts (those concerned with property, furniture, plant and machinery, etc.)—Debit value coming in ; credit value going out.

For Nominal or Proprietary Accounts (those concerned with losses or gains)—Debit losses ; credit gains.

Examples :

Feb. 1—Sold to Philip Boyd, Bedford Street, London, old machine £25 - -

In deciding how to journalise this, the mental process is as follows : What two accounts are affected ? Answer : Philip Boyd and Plant and Machinery. The rule for Personal Accounts is, Debit the receiver, and as Philip Boyd is receiving the goods, his account is debited. Plant and Machinery A/c is parting with value, and therefore it is credited. So the entry would be as follows :

1924		Dr.	Fol.	£	s.	d.	£	s.	d.
Feb. 1	Philip Boyd .. ..	..	..	25	-	-			
	To Plant and Machinery						25	-	-

Feb. 3—Bought from Gibson & Steele, 2 doz. bentwood chairs £3 12 -

What are the two accounts affected? Answer: Gibson & Steele and Furniture and Fixtures. Furniture and Fixtures is a Real Account, and the guiding rule is: Value coming in is debited. The Personal Account rule—debit the receiver and credit the giver—being applied to Gibson & Steele, shows that they are “the givers,” and therefore the entry would be:

1924		Fol.	£	s.	d.	£	s.	d.
Feb. 3	Office Furniture .. Dr. To Gibson & Steele .. (Being purchase of 2 doz. bentwood chairs @ 3/- each)		3	12	-	3	12	-

In this case the Journal entries do not themselves tell the whole story. Consequently the narrative column is used to make everything clear.

Feb. 4—F. Foster, who owes £20, becomes bankrupt, and a first and final dividend of 5/- in the £ is paid £5 - -

What are the accounts affected here? Obviously Cash and F. Foster, because he has paid you one-quarter of the amount he owed, but you have also an intimation that you are not legally entitled to any more. To follow out the book-keeping process, it will be necessary to make an entry to close up the account of F. Foster, and to show that 15/- for every one pound he owed has been lost to the business. The account which makes a record of this kind is a nominal account called Bad Debts, and this account is regulated by the rule: Debit losses and credit gains. The balance which will not be paid is debited to Bad Debts A/c, and F. Foster is credited:

1924		Fol.	£	s.	d.	£	s.	d.
Feb. 4	Bad Debts A/c .. Dr. To F. Foster .. (Being 15/- in the £ written off as irrecoverable.)		15	-	-	15	-	-

The £5 cash received is entered on the debit side of the Cash Account and from there posted to the credit of F. Foster's account. When the amount of the bad debt is credited to Foster's account, the account will be closed, and have no balance.

The Bad Debts A/c, when posted, would show on the debit side "To F. Foster £15." The Bad Debts A/c, being a nominal account, has its balance transferred to the Profit and Loss A/c, and so the loss is duly recorded.

Feb. 6—Bought of Pepper & Son two gas radiators £30 - -

The accounts affected—Pepper & Son (who parted with value) and Furniture and Fixtures. Furniture and Fixtures A/c receives value, and is therefore debited. The record would be entered thus :

1924			Fol.	£	s.	d.	£	s.	d.
Feb. 6	Furniture and Fixtures	Dr.		30	-	-	30	-	-
	To Pepper & Son								
	(Being the cost of 2 gas radiators.)								

Feb. 8—Credit interest on £1,455 capital at 5% per annum
for one month £6 1 3

Pay careful attention to this entry. The interest is credited by the business to the proprietor, and therefore it is a loss to the business. The rule for nominal accounts is : Debit losses and credit gains. The transaction is recorded thus :

1924			Fol.	£	s.	d.	£	s.	d.
Feb. 8	Interest	Dr.		6	1	3	6	1	3
	To Capital								
	(Being 5% per annum on £1,455 for one month.)								

This means that the business sustains a loss through having to pay interest, and the gain, which is recorded in the Capital A/c, is a gain to the proprietor of the business, who must be looked upon as distinct from the business.

Feb. 8—Provide for £10 depreciation of Machinery.

1924		Dr.	Dr.			Cr.		
			£	s.	d.	£	s.	d.
Feb. 8	Depreciation A/c .. Dr.		10	-	-	10	-	-
	To Machinery A/c							

Depreciation is a loss in the value of an asset, and may be due to wear and tear, time, or obsolescence. In the Ledger the Depreciation Account is debited and the total of this account is later transferred as a loss to the Profit & Loss Account. Machinery Account is credited with the amount of the depreciation thereby reducing the book value of the machinery.

EXERCISE 31

Give the Journal entries necessary to record the following transactions :

1935

Jan. 1—Bought Plant and Machinery from The Excel Co. Ltd. for £1,000.

J. Smith, a debtor owing £60, absconded and his debt is written off as bad.

„ 6—Bought Office Furniture from A. Bright & Co. £120 6s. 4d. and gave in part exchange old furniture, for which an allowance of £32 was made.

„ 15—A. White, a creditor, charged interest £5 on his outstanding balance.

„ 21—Depreciation of Furniture £12, Plant £56.

„ 25—Bought Office Stationery of W. Simpson, £12 3s. 5d.

A. Cole, a debtor for £100, is charged interest £2 10s.

„ 27—Rent due to landlord A. Greer, £10.

Received from G.P.O. telephone account for £3 4s. 6d.

EXERCISE 32

On 1st January, 1936, John Smith commenced business with £4,000, which he paid into bank. Enter this and the following transactions into suitable books, post to the Ledger, and extract a trial balance.

1936		£	s.	d.
Jan. 1	Bought goods of K. Wright & Co. ..	253	12	0
	Bought of the Elite Co., Office Furniture	125	7	-
	Purchased lease of business premises from The Real Estate Co., £2,000 and paid on account £1,500.			
	Solicitor's conveyancing charges and stamp duties on property paid	56	-	-

GENERAL EXERCISES

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1936		£	s.	d.
Jan.	2—Sold goods to A. White	100	—	—
	Bought goods of J. Simpson	143	5	10
	Purchased 2 typewriters for Office from the Remington Typewriter Co. Ltd.	48	—	—
„	3—Cash Sales	17	3	8
	Bought Office Stationery from L. Brown & Co.	53	8	7
„	4—Drew cheque for Cash £30, and paid wages £5, Insurance 3/2, stamps £2, and sundry expenses £1 8s. 9d.			
„	6—Agreed to give A. White 3 months' credit and charged him 5% p.a. for this period.			
„	7—Purchased motor van from the Middlesex Car Mart for	162	—	—
„	8—Bought goods of J. Dunn & Co.	73	15	2
	Sold goods to A. Green	62	1	9
	Cash Sales	34	2	11
„	9—Bought two office chairs for	1	10	—
	Part of the stationery supplied by L. Brown & Co. was damaged in transit. Claimed £6 10s. and this amount was allowed.			
„	10—Received from the Express Service Co. an account for £42 9s., cost of electrical installations.			
	Sold goods to A. White	37	12	5
	Cash Sales	51	8	4
	Paid from Cash, wages £5, insurance 3/2, and sundry expenses 17/10.			
	Returned one typewriter valued £24 and received a different model at £32.			
	Sent cheque for £100 to Middlesex Car Mart, and purchased accessories £5.			
	Received an account for £72 5s. 6d. from the Modern Fittings Co. for Fixtures and Fittings supplied.			

EXERCISE 33

On January 1st, 1920, the state of George German's business was as follows : Cash, £420 ; goods, £510. Debtors : A. Ayres, £120 ; B. Baird, £75 ; C. Cass, £250. Creditors : D. Dan, £145 ; and E. Easton, £55. Find and credit capital. Enter the transactions in suitable books, post, draw out a Trial Balance.

1920		£	s.	d.
Jan.	1—Received cash of A. Ayres	104	12	6
	Wrote off his balance as bad debt	15	7	6

1920		£	s.	d.
Jan.	2—Received cash of C. Cass	147	17	6
	Allowed him discount	2	2	6
„	3—Paid for stationery	2	13	4
„	4—Cash sales	95	4	6
„	5—Purchases for cash	85	3	4
„	6—Sold goods to C. Cass	145	10	4
„	8—Paid wages in cash	7	15	6
„	10—Purchased goods of D. Dan	75	10	8
„	11—Received cash for a bad debt written off	25	5	—
„	12—Paid for painting premises (cash) ..	10	3	6
„	13—Drew cash for self	15	—	—
„	14—Charged B. Baird interest on his overdue %	1	1	6
„	15—C. Cass paid me cash	98	13	4
	Allowed discount	1	6	8
„	17—Cash paid to D. Dan, £107 12s. 9d.; discount	2	7	3
„	18—Sales to C. Cass	47	15	2
„	19—E. Easton bought goods	32	10	9
„	20—Received cash of B. Baird	76	1	6
„	21—F. France sold me goods	160	7	6
„	22—Paid E. Easton cash, £20 10s.; dis- count in addition	1	19	3
	Paid wages in cash	7	15	6
„	24—Sales to B. Baird	110	10	8
„	25—Paid D. Dan cash, £33 18s. 6d.; dis- count in addition	1	1	6
„	26—Bought goods of E. Easton	130	15	6
„	27—B. Baird purchased goods	34	9	4
„	28—Paid F. France cash, £58 10s.; he allowed discount	1	10	—
„	29—Paid salaries	32	17	6
„	31—Interest on capital	5	—	—

BUSINESS TERMS AND ABBREVIATIONS

Bankrupt.—Any person who has the capacity to contract and who has become involved in financial difficulties which prevent him being able to pay 20/- in the pound can be adjudged a bankrupt by the court. The court declares him bankrupt, arranges for an equitable distribution of his available assets among his creditors, and releases him from all further liability for past debts.

Narration.—When an explanatory statement is made at the foot of an entry in the General Journal, it is called a narrative or narration.

CHAPTER V

PETTY CASH BOOK

IN order to avoid overloading the principal Cash Book with details of small payments, a special book called the Petty Cash Book is used. There are several methods of keeping this book, but the method known as the Imprest System is the most popular, especially in concerns where payments for current expenses are similar from month to month.

Examples of expenditure recorded through the Petty Cash Book are : postage, stationery, carriage, cleaning, gratuities, etc.

The person responsible for keeping the petty cash enters on the debit side the amount of money received, and on the credit side the details of how this money has been expended. When commencing a Petty Cash Book the petty cashier is generally given a cheque for a round sum, say £20. This amount is estimated to cover the petty expenses for the month. The cashier enters this transaction in the bank column on the credit side of the Cash Book (which shows that the amount of money at the bank has been depleted to the extent of £20). He would enter " By Petty Cash " in the details column, thus indicating where the £20 had gone to, placing in the folio column the number of the page of the Petty Cash Book where the debit entry should be found. The petty cashier would cash the cheque and enter the amount on the debit side of the Petty Cash Book, inserting the number of the Cash Book page in the folio column. At the end of the month whatever balance of petty cash remains is made up to the original amount of £20 by another cheque. Take an example.

If on January 1st the petty cashier received £20 and the total amount of disbursements during the month came to £6 2s., he would have a petty cash balance of £13 18s. At the beginning of February the cashier would therefore pass to the petty cashier a cheque for £6 2s.

In addition to columns designed to keep a record of expenses such as postage, telegrams, stationery, etc., it is usual

to include what is known as a ledger column, so that when a small payment (too small to justify a cheque) is made to a trade creditor who has an account in the Ledger, the record can be kept here, the posting being made direct.

ILLUSTRATIVE EXERCISE

This illustrative exercise should be written out in full, even though the complete key is given. This will afford an opportunity for practice in careful ruling, and the general principle will be more thoroughly grasped in this way than would be the case if the details are merely read. The extra time and work involved will be well repaid later.

Record the following transactions in the appropriate books—Cash Book and Petty Cash Book suitably ruled. Post to Ledger and prove the posting by means of a Trial Balance.

1936				£	s.	d.
Jan.	1—Balance at Bank	..	..	150	-	-
"	1—Balance of Petty Cash on hand	..	..	20	-	-
(The proprietor of the business should be credited with £170 capital which the above represent.)						
"	3—Paid Office Cleaner	..	..	-	5	-
	Bought Stamps	..	..	-	12	-
"	4—Paid for Carriage	..	..	-	10	6
"	5—Paid R. Jones's Account	..	..	-	10	-
	Bought Memo Pads	..	..	-	12	-
"	7—Paid Postage	..	..	1	-	-
	Paid for Cleaning	..	..	-	10	-
"	8—Bought String	..	..	-	14	-
"	10—Paid Carriage	..	..	-	8	-
	Bought Stamps	..	..	-	10	-
	Paid Carriage	..	..	-	4	6
	Paid for Cleaning	..	..	-	6	-
"	11—Received from cashier amount necessary to make up "Imprest" to £20.					

Dr.

Cash Book

Fol. 1 Cr.

1936				£	s.	d.	1935				Fol.	£	s.	d.
Jan. 1	To Balance	..		150	-	-	Jan. 11	By Petty Cash			1	6	2	-
								.. Balance	..		c/d	143	18	-
				150	-	-						150	-	-
Jan. 12	To Balance	..	b/d	143	18	-								

ILLUSTRATIVE EXERCISE

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Dr.

Petty Cash Book

Cr.

Cash Received.	Date.	Details.	Total.*		Postage.		Stationary.		Carriage.		Cleaning.		Ledger Folio.	Ledger Accounts.			
			£	s.	d.	£	s.	d.	£	s.	d.	£		s.	d.		
£ 20	1930 Jan. 1	To Balance ..	-	5	-	-	-	-	-	-	-	-		£	s.	d.	
-	" 3	By Office Cleaner	-	12	-	-	-	-	-	-	-	5	-				
-	" 4	" Stamps	-	10	6	-	-	-	-	10	6	-					
-	" 5	" Carriage	-	10	-	-	-	-	-	-	-	-					
-	" 6	" R. Jones	-	10	-	-	-	-	-	-	-	-					
-	" 7	" Memo. Pads..	-	12	-	-	-	-	-	-	-	-					
-	" 8	" Postage	1	-	-	-	-	-	-	-	-	-					
-	" 9	" Cleaning	-	10	-	-	-	-	-	-	-	-					
-	" 10	" String	-	14	-	-	-	-	-	-	-	-					
-	" 11	" Carriage	-	8	-	-	-	-	-	8	-	-					
-	" 12	" Postage	-	10	-	-	-	-	-	-	-	-					
-	" 13	" Carriage	-	4	6	-	-	-	-	4	6	-					
-	" 14	" Cleaning	-	6	-	-	-	-	-	-	-	-					
6 2	Jan. 11	To Cash	£6	2	-	£2	2	-	£1	6	-	£1	1	-	£-	10	-
-	Jan. 12	By Balance c/d ..	20	-	-												
£26 2			£26	2	-	£26	2	-									
£20	Jan. 12	To Balance b/d															

Dr. Ledger Folio 1

Dr. Ledger Folio 2

Dr. Ledger Folio 3

Dr. Ledger Folio 4

The totals of these analysis columns are posted in the Ledger to the Debit of the accounts concerned.

Dr. Dr. Dr.
Ledger Ledger Ledger
Folio 1 Folio 2 Folio 3
Folio 4

The totals of these analysis columns are posted in the Ledger to the Debit of the accounts concerned.

* Sometimes the totals column is placed at the end, the argument in favour of this being that cross-totalling works naturally from left to right and the result should be placed in the last column; but placing the total on the left is favoured because of the clearness with which the balance is shown, and also because the other columns are an analysis of the total.

LEDGER

<i>Dr.</i>				Postage	Fol. 1 Cr.
1936				£ s. d.	
Jan. 10	To Petty Cash	..	1	2 2 -	
<i>Dr.</i>				Stationery	Fol. 2 Cr.
1936				£ s. d.	
Jan. 10	To Petty Cash	..	1	1 6 -	
<i>Dr.</i>				Carriage	Fol. 3 Cr.
1936				£ s. d.	
Jan. 10	To Petty Cash	..	1	1 3 -	
<i>Dr.</i>				Cleaning	Fol. 4 Cr.
1936				£ s. d.	
Jan. 10	To Petty Cash	..	1	1 1 -	
<i>Dr.</i>				R. Jones	Fol. 5 Cr.
1936				£ s. d.	
Jan. 5	To Petty Cash	..	1	- 10 -	
<i>Dr.</i>				Capital	Fol. 6 Cr.
				1936	
				Jan. 1 By Bank	£ s. d.
				.. P/O	1 150 - -
					.. 1 20 - -

Trial Balance

January 12th, 1936

						Fol.	<i>Dr.</i>	<i>Cr.</i>
							£ s. d.	£ s. d.
Postage	..	..	..	..	..	1	2 2 -	
Stationery	..	..	..	..	..	2	1 6 -	
Carriage	..	..	..	..	..	3	1 3 -	
Cleaning	..	..	..	..	..	4	1 1 -	
Jones, R.	..	..	..	..	..	5	- 10 -	
Capital	..	..	..	..	..	6		170 - -
Bank	..	..	..	..	..	CB1	143 18 -	
Petty Cash	..	..	..	..	..	PCB1	20 - -	
							170 - -	170 - -

Remember that the Cash Book is part of the Ledger ; it is bound separately for the sake of convenience. The Petty Cash Book is part of the Cash Book, therefore it is part of the Ledger.

The Petty Cash Book shows the Petty Cash Account ; any balance remaining in this book (or account) is included in the Trial Balance just as the balances of the other accounts are included. The book-keeper will recall that the items on the credit side of the Cash Book are posted to the debit of the ledger accounts. The items on the credit side of the Petty Cash Book are posted to the debit of the ledger accounts, but, instead of posting the separate items, the totals of these items are posted. This collection of details or amounts by means of analysis columns saves much time, and gives valuable information, as will be seen later when dealing fully with columnar book-keeping.

EXERCISE 34

Answer fully the following questions :

1. What is the meaning of " Imprest System " ?
2. Why are small payments recorded in a separate book ?
3. Describe how a Petty Cash Book is balanced.

EXERCISE 35

Enter the following in the Petty Cash Book. Use analysis columns for (a) postages, (b) telegrams, (c) travelling expenses, (d) stationery, (e) sundries. 1923—January 8th—petty cashier had £5 in hand. January 8th—stamps 18s., envelopes 10s. 6d., bottle of gum 2s. 6d. January 9th—tram fares 8d., postage on parcel 1s. 3d., telegram 3s. January 10—string 2s. 6d., tram fares 9d., stamps 9s. 6d. January 11th—telegrams 8s. 9d., carriage on parcel 4s. 6d., cab fare 4s. January 12th—tram fares 5d., telegram 5s. 6d., stamps 10s. On the 13th the amount expended was made good by the cashier ; show this in closing the Petty Cash Book.

(N.U.T., 1923.)

EXERCISE 36

Rule a columnar Petty Cash Book containing provision for the following headings : Postage, Telegrams, etc. ; Carriage ; Office Expenses ; Stationery, etc. ; Travelling ; Salaries and Wages ; and Sundries. Record the undermentioned transac-

tions in the Petty Cash Book. Bring down the balance as on December 6th, 1918, and enter the amount which should be received from the cashier to make up the amount of the "Imprest," viz. £20.

Transactions

1918	£	s.	d.
Dec. 1—Received from the cashier a cheque (which was cashed) for £12 8s. 7d., the amount required to make up the amount of the "Imprest," viz.	20	—	—
„ 1—Purchased stamps	1	10	—
„ 1—Paid office cleaner		5	—
„ 2—Purchased stationery		12	—
„ 2—Paid for telegram to J. Brown		1	8
„ 2—Purchased new office stool		12	—
„ 3—Paid for fares to Chiswick		1	—
„ 3—Paid account for telephone trunk calls for November	1	18	9
„ 4—Paid carriers' account	1	2	4
„ 4—Received from Inland Revenue for spoiled stamps	1	8	6
„ 4—Paid for insertion in Directory		5	—
„ 4—Paid for return fare to St. Albans		3	10
„ 4—Purchased packing materials	1	19	4
„ 5—Paid window cleaner		6	6
„ 5—Purchased pens and pencils		5	3
„ 6—Paid wages to two casual men at 5s. per day each for three days	1	10	—
„ 6—Paid salaries to office boy and typist	1	15	—

(R.S.A., Stage I.)

EXERCISE 37

After entering in the Cash Book and Petty Cash Book the transactions given below, post to the Ledger, make a Trial Balance, and then rule off and bring down the balances.

1933	£	s.	d.
Jan. 1—The business received from F. Goodyear, your employer, the following investment :			
At Bank	209	17	6
In Cash	50	—	—
„ 3—Paid H. Scott by cheque	23	15	—
„ 3—Discount allowed	1	5	—
„ 4—Drew and cashed cheque for office cash	10	—	—
„ 5—Transferred from office cash to petty cash	20	—	—

1933		£	s.	d.
Jan.	6—Paid in cash salaries and wages	32	—	—
"	9—Petty cashier bought stamps	2	—	—
"	11—Paid by cheque on account to A. Grey ..	27	—	—
"	12—Cash sales	29	—	—
"	12—Paid into Bank	30	—	—
"	15—Cost of telegrams paid out of petty cash ..	12	—	—
"	17—Paid D. Perkins by cheque the full amount of his account, £78, less 5 per cent. cash discount.			
"	19—Purchased filing cabinet by cheque ..	3	—	—
"	20—Paid travelling expenses out of petty cash ..	3	7	6
"	23—Cash sales	92	—	—
"	23—Paid into Bank	90	—	—
"	27—Paid rent by cheque	30	—	—
"	29—Received cheque from Walter Bond and passed cheque into the Bank on the same day	52	8	6
"	31—Paid carriage out of petty cash	17	6	
"	31—Paid gratuities from petty cash	2	6	
"	31—Paid window cleaner from petty cash ..	1	15	—
"	31—Advanced from office cash for petty cash ..	8	14	6

BUSINESS TERMS AND ABBREVIATIONS

Stocktaking.—The process of examining, finding the value, and preparing a priced inventory of goods or merchandise at a particular time. This process is completed at each financial balancing time, so that the value of the goods on hand may be incorporated in the accounts of the business. Stock would also be taken in the same way when a Statement of Affairs of an insolvent debtor is required for the information of his creditors, or (for confirmation purposes) on the death of the proprietor. The value set on the goods varies according to the purpose of the inventory. In the first-mentioned circumstance the goods would be valued at cost or the market price (whichever is the lower), and when dealing with a bankrupt business the value would be the amount likely to be realised at a forced sale.

F.a.q.—(a) Fair average quality. (b) Free alongside quay; this means that the price includes the cost of conveying the goods to the vessel lying in the docks.

Fop.—Foolscap. Paper of a certain size, so-called from having borne the water-mark of a "fool's cap" and bells.

F.i.b.—Free into bunker. This means that the seller will pay all expenses on the coal until it is delivered into the ship's bunker. The bunker is that part of the ship in which the coal for the ship's own consumption is kept.

F.i.t.—Free of income tax. When a company pays dividends it deducts income tax from the dividends and pays this to the Commissioners of Inland Revenue. If the rate of dividend (5%, for example) represents the net amount payable after income tax has been deducted, then that rate is said to be "free of income tax."

Current Account.—This term is used principally in reference to (a) a Bank current account, and (b) a current account in connection with partnerships. The latter is our particular concern at the moment.

The capital account shows the state of indebtedness of the business to the proprietor or partners. The amount originally invested in the business is shown, and it is usual to leave this account intact, showing the original investment and any subsequent additional capital that is invested. A current account is then kept, into which are entered all the transactions between the business and the partners, such as drawings, interest and net profit or loss from the Profit and Loss account. The balance of this account will show what the business owes to the partners, or what the partners owe to the business, according to whether the final balance is a credit or debit balance. On completion of the final accounts, this balance, or balances (there will be a current account for each partner) will appear in the Balance Sheet as a liability (if a credit balance) or an asset (if a debit balance). One partner may have a credit balance and another a debit balance. It is permissible to show in the Balance Sheet how the balance of the current account has been ascertained.

Remember, when you have current accounts, the capital accounts are not altered unless additional capital is invested, or capital is actually withdrawn. All the adjustments are made through a current account.

Correction of Errors.—Errors sometimes occur in book-keeping. Corrections are not made by striking out the wrong figures or entry. Another entry is made to correct the error, and to show the true position. Such entries must be recorded in the Journal with a full narration describing the necessity for the entry.

CHAPTER VI

TRADING ACCOUNT, PROFIT AND LOSS ACCOUNT AND BALANCE SHEET

THE main object of conducting business is to make profit, and that object is achieved by selling goods at a price greater than the cost of purchase or manufacture.

So far, the book-keeper has been concerned with recording transactions and extracting a Trial Balance, to prove the arithmetical accuracy of the posting. The records kept will indicate the state of the personal and real accounts, and various totals will be available concerning purchases, sales, and other nominal accounts. Nothing has been done to indicate at once what profit has been made, or loss suffered during the trading period. This can be done now.

A Trial Balance is given on page 76. You will be familiar with all the items in that Trial Balance, with the exception of the sundry debtors and sundry creditors, and, perhaps, the order in which the accounts are listed. "Sundry Debtors" is the total of the debtors' personal accounts; "Sundry Creditors" is the total of the creditors' personal accounts. It is not necessary in a Trial Balance (and it would be very unusual in business) to give all the names of the accounts. The customers' balances would be listed and the totals shown in the Trial Balance. The other accounts in a Ledger or Ledgers will be arranged systematically. In the Trial Balance on page 76 you will see real accounts followed by nominal accounts. This last group is now of particular importance.

The nominal accounts with debit balances represent losses or expenses, and the nominal accounts with credit balances represent gains. For this purpose the stock on December 1st, and the purchases, can be considered losses, because the figures represent respectively the cost of the goods on hand at the beginning of the period and the cost of the goods bought for resale. Similarly, the sales can be considered gains. Still dealing with the nominal accounts only, if the debit balances represent losses and the credit balances represent gains, the difference between the totals of these debits and credits will give some indication of the profit or loss for the period. In

the Trial Balance below the total of the nominal account debits is £985, and the total of the nominal account credits is £840. The debits are greater than the credits by £145, and so indicate a loss of £145 for the period. The last figure would truly represent the result of the firm's trading if *all* the goods in stock at the beginning of the period and the purchases had been sold. But that is very unlikely, so it is necessary to consider the *closing stock* (the stock at the end of the period).

Most students of book-keeping will have heard the term "stock-taking" used when a business house is checking and recording its stock at a certain time. This is done at the end of the financial year or end of the trading period, and the stock is valued at cost or current market price, whichever is the lower. The book-keeper will be given the figure representing the value of the closing stock, and when working exercises for practice he will find it given at the beginning or end of the exercise. If the closing stock given at the foot of the Trial Balance below is now considered, it can be looked on as a gain for the purpose of ascertaining the result of the firm's trading. The total of the nominal account debits will still be £985. The credits will be £840 plus closing stock £350, making £1,190 altogether. The total credits now exceed the total debits by £205; the gains exceed the losses, and the result is a **NET PROFIT**, and that is the correct result of the firm's trading for the year ending December 31st, 1935, so far as it is possible to give it from the information available.

Trial Balance, December 31st, 1935

	Dr. £	Cr. £
Sundry Debtors	450	
Sundry Creditors		300
Capital		965
Property	340	
Furniture and Fixtures	120	
Cash at Bank	210	
Stock (1st January, 1935)	300	
Purchases	600	
Sales		840
Salaries	60	
Rent	20	
Sundry Expenses	5	
	£2,105	£2,105

The stock on hand at December 31st, 1935, was valued at £350.

The information that it has been possible to ascertain above must be set out in a generally accepted and satisfactory way. To do this, FINAL ACCOUNTS are prepared. These accounts are called the TRADING ACCOUNT and the PROFIT AND LOSS ACCOUNT. In the former are placed all the nominal account balances which have special reference to the first handling of the goods, and in the latter all the remaining nominal account balances. This preparing of the Final Accounts in two parts facilitates comparison with past years' trading. The first part, or Trading Account, prepared from the Trial Balance above would appear :

Dr. Trading A/c for one year ended December 31st, 1935 *Cr.*

	£		£
To Stock 1/1/35	300	By Sales	840
„ Purchases	600	„ Stock	350
„ Gross Profit carried down to P. & L. A/c	290		
	<u>£1,190</u>		<u>£1,190</u>

The balance of the Trading Account is called the GROSS PROFIT (or Gross Loss if the debits are greater than the credits) and is transferred to the second part of the Final Accounts—the Profit and Loss Account. The Profit and Loss Account would appear :

Profit and Loss Account for one year ended
Dr. December 31st, 1935 *Cr.*

	£		£
To Salaries	60	By Gross Profit brought for- ward from Trading A/c	290
„ Rent	20		
„ Sundry Expenses	5		
„ Net Profit transferred to Capital A/c	205		
	<u>£290</u>		<u>£290</u>

The balance of the Profit and Loss Account shows the final position. Because the credit side is greater than the debit (that is, the gains are greater than the losses) a NET PROFIT has been made, which is transferred to the Capital Account. Transferring this net profit from the debit side of the Profit and Loss Account to the credit of the Capital Account serves the purpose of increasing the capital.

Now, the above Trading and Profit and Loss Accounts should

be very carefully copied into a Ledger. The Final Accounts are a fundamental part of the double-entry principles, therefore the accounts should be written in the Ledger. When preparing the Final Accounts the Trial Balance is used because the balances required are conveniently listed. The Trial Balance is a list of balances from the Ledger—it is really the Ledger balances that the book-keeper is using. The balances in the nominal accounts in the Ledger are transferred to the Trading and Profit and Loss Accounts. This is done *via* the Journal (see page 91) although there are some accountants who make direct transfers (that is, simply making an entry in the nominal accounts and a corresponding entry in the Trading or Profit and Loss Account), and this is a practice that is encouraged by examiners who set papers requiring candidates to prepare final accounts from a given trial balance. In any event the accounts in the Ledger will look the same ; for example :

<i>Dr.</i>		Purchases Account	<i>Cr.</i>
1935	£	1935	
Dec. 31—To Sundry Creditors	.. 600	Dec. 31—By Transfer to Trading Account	600

<i>Dr.</i>		Sales Account	<i>Cr.</i>
1935	£	1935	£
Dec. 31—To Transfer to Trading Account	840	Dec. 31—By Sundry Debtors	.. .. 840

<i>Dr.</i>		Salaries	<i>Cr.</i>
1935	£	1935	£
Dec. 31—To Bank	.. 60	Dec. 31—By Transfer to P. & L. A/c	.. 60

Notice that in the case of Purchases an entry has been made on the credit of the Purchases Account and on the debit of the Trading Account—a double entry ; in the case of Sales an entry has been made on the debit of the Sales Account and on the credit of the Trading Account—a double entry. Similarly, all the nominal accounts will be closed by a transfer to the Final Accounts. When you have copied the Trading and Profit and Loss Accounts illustrated, carefully compare your work with the Trial Balance on page 76. Notice that all the nominal account

balances have been used, the debit items in the Trial Balance being placed on the debit side of the Final Accounts, and the credit balances on the credit of the Final Accounts. No other balances have been used, because they do not affect the profit or loss. The Trial Balance so far considered contains few items ; the principle is exactly the same if there are many items.

In the next Trial Balance you will notice there are more balances. Wages and Carriage Inwards have been included. These expenses will be placed in the Trading Account because they directly concern the handling of the goods in the first place. Wages, for instance, is a term given to the remuneration of the workmen, those who actually handle the goods or make them. (Salaries is the term given to the remuneration of office workers, managers and staff.) Carriage Inwards really increases the cost of the purchases. Similarly, any other items of this nature like Warehouse Rent and Factory Power would be put into the Trading Account. Returns Inwards and Outwards have been included in the Trial Balance ; these returns really affect the amount of the Purchases and Sales. For example, whilst the Purchases are given as £2,800, the returns outwards are £20, really making the net figure of Purchases £2,780. In the Trading Account, therefore, instead of putting the returns outwards on the credit side they are shown as a deduction from the purchases on the debit side. The sales are similarly dealt with. Here is a Trial Balance followed by the Final Accounts :

Trial Balance—December 31st, 1935

	<i>Dr.</i>	<i>Cr.</i>
	£	£
Sundry Debtors	720	
Sundry Creditors		400
Capital		910
Cash on Hand	80	
Cash at Bank	210	
Motor Lorries	300	
Furniture and Fixtures	60	
Property	500	
Stock (January 1st, 1935)	70	
Sales		4,300
Purchases	2,800	
Returns Inwards	80	
Returns Outwards		20
Carried forward	£4,820	£5,630

Trial Balance—*continued*

	Dr.	Cr.
Brought forward	£4,820	£5,630
Wages	410	
Carriage Inwards	30	
Salaries	250	
Rent and Rates	60	
Light and Heat	20	
Taxes	10	
Gas and Water	10	
Commission	30	
Discount		10
	<u>£5,640</u>	<u>£5,640</u>

The stock at the end of the year was valued at £110.

Dr. Trading Account for the year ended December 31st, 1985 *Cr.*

	£	£		£	£
To Stock 1/1/35 ..		70	By Sales	4,300	
„ Purchases ..	2,800		„ Less Returns ..	80	4,220
„ Less Returns ..	20	2,780	„ Stock		110
„ Wages		410			
„ Carriage Inwards ..		30			
„ Gross Profit carried down to P. & L. A/c ..		1,040			
	<u>£4,330</u>				<u>£4,330</u>

Profit and Loss Account for the year ended December 31st, 1985

<i>Dr.</i>		<i>Cr.</i>
	£	£
To Salaries	250	
„ Rent and Rates	60	
„ Light and Heat	20	
„ Taxes	10	
„ Gas and Water	10	
„ Commission	30	
„ Net Profit carried forward to Capital A/c ..	670	
	<u>£1,050</u>	
		By Gross Profit brought down from Trading A/c
		1,040
		„ Discount
		10
		<u>£1,050</u>

When the Net Profit has been transferred to the Capital Account, the Capital Account should appear :

FINAL ACCOUNTS

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<i>Dr.</i>	Capital Account		<i>Cr.</i>
1935	£	1935	£
Dec. 31—To Balance c/d ..	1,580	Jan. 1—By Balance ..	910
		Dec. 31— „ Net Profit ..	670
	<u>£1,580</u>		<u>£1,580</u>
		1936	
		Jan. 1—By Balance b/d ..	1,580

In the examples given in this chapter, “goods” have been the articles in which it has been presumed the firm has been dealing. It does not matter what the trade of the firm may be, Final Accounts can be produced on similar lines. For example, in the case of a transport company, the “sales” would be the receipts from passengers’ fares and receipts from carriage of goods, whilst the expenses directly connected with haulage would be on the debit side. A nurseryman would have receipts from sales of plants, etc., and receipts from constructing gardens on the credit side of his Trading Account, and the cost of the produce bought, constructional material used, etc., on the debit side.

In the next exercise the nominal account balances have been “ticked.” The student will be advised to follow this practice ; it is particularly helpful when the items are not as conveniently arranged as may be desired.

It is very convenient to have double money columns when preparing the Final Accounts. If two-columned Ledgers are not available, the student will find Journal ruling suitable. When used for this purpose, however, the book or paper used must be considered as a Ledger, for the time being. In business, Final Accounts are frequently prepared on loose sheets.

EXERCISE 38

From the following Trial Balance of John Brown, prepare Trading and Profit and Loss Accounts for the year ended December 31st, 1921, when the stock on hand was valued at £450.

	<i>Dr.</i>	<i>Cr.</i>
	£	£
John Brown—Capital Account		740
John Brown—Drawings Account	130	
Premises	300	
Carried forward	<u>£430</u>	<u>£740</u>

	Dr.	Cr.
	£	£
Brought forward	430	740
Plant and machinery	200	
Sundry debtors	65	
Sundry creditors		75
✓ Discounts received		15
✓ Purchases	400	
✓ Returns outwards		20
✓ Sales		750
✓ Stock, January 1st, 1921	250	
✓ Sales returns	30	
✓ Rent and rates	60	
✓ Sundry expenses	15	
✓ Wages	50	
Cash in hand	10	
Cash at Bank	90	
	<u>£1,600</u>	<u>£1,600</u>

(Union of Lancashire and Cheshire Institutes, 1922.)

EXERCISE 39

The following Trial Balance was extracted from the books of T. H. Brindley on December 31st, 1935. Prepare a Trading Account and a Profit and Loss Account for the year ended 1935.

	Dr.			Cr.		
	£	s.	d.	£	s.	d.
Cash at Bank	1,000	-	-			
✓ Purchases	620	-	-			
✓ Sales				1,160	-	-
✓ Sales returns	19	-	-			
✓ Purchases returns				30	-	-
✓ Stock, January 1st, 1935	260	-	-			
✓ Wages	110	-	-			
✓ Rents, rates, etc.	64	-	-			
✓ Plant and machinery	670	-	-			
Horses and carts	140	-	-			
Sundry debtors	425	-	-			
✓ Salaries	62	-	-			
✓ Commission	15	-	-			
Sundry creditors				218	-	-
✓ Discount				9	-	-
Capital				1,968	-	-
	<u>£3,385</u>	-	-	<u>£3,385</u>	-	-

The value of the stock at December 31st, 1935, was £310.

EXERCISE 40

From the following Trial Balance at December 31st, 1935, prepare the Trading and Profit and Loss Accounts.

	Dr.			Cr.		
	£	s.	d.	£	s.	d.
J. Hargrave's capital				1,201	2	6
Stock, December 1st, 1935	900	—	—			
Freehold property	360	—	—			
Furniture and fixtures	36	—	—			
Creditors: C. Boswell				552	—	—
R. Graham				246	10	6
Debtors: J. Lyons	384	10	—			
Bennett Bros.	172	11	6			
Salaries	94	6	8			
Travelling expenses	50	6	2			
Advertising	100	—	—			
Carriage on sales	10	—	—			
Discount received				40	—	—
Purchases	192	—	—			
Sales				800	—	—
Returns inwards	50	—	—			
Returns outwards				15	—	—
Cash at Bank	484	17	6			
Cash in hand	20	1	2			
	£2,854	13	—	£2,854	13	—

Stock-in-trade on December 31st, 1935, was valued at £400.

EXERCISE 41

George Wade extracted the following Trial Balance from his books on June 30th, 1935.

	Dr.			Cr.		
	£	s.	d.	£	s.	d.
Capital				2,098	8	7
Drawings	60	—	—			
Cash at Bank	712	10	—			
Cash on hand	19	5	—			
Purchases	693	12	6			
Purchases returns				43	10	—
Sales				910	12	—
Sales returns	5	4	—			
Salaries	70	—	—			
Carriage inwards	10	12	—			
Stock, January 1st, 1935	94	17	—			
Discount	12	5	—			
Sundry debtors	212	—	—			
Carried forward	£1,890	5	6	£3,052	10	7

	Dr.			Cr.		
	£	s.	d.	£	s.	d.
Brought forward	1,890	5	6	3,052	10	6
Sundry creditors				160	14	6
Carriage outwards	16	10	—			
Rent and rates	40	—	—			
Taxes	10	—	—			
Trade expenses	7	6	4			
Motor lorries	612	—	—			
Travelling expenses	15	7	3			
Freehold premises	564	—	—			
Printing, etc.	19	16	—			
Advertising	38	—	—			
	£3,213	5	1	£3,213	5	1

You are required to prepare his Trading and Profit and Loss Accounts for the six months ended June 30th, 1935, taking into account that the value of the goods on hand at the end of the period was £136 12s. 9d.

Balance Sheet

Whilst the profit or loss of a trading period can indicate, to some extent, the position of the firm, it does not show the true financial position. A statement called the Balance Sheet is prepared. Remember the Balance Sheet is a statement and not an account. The question of double entries does not arise.

The Trial Balance given below is the one that was used at the beginning of this chapter. From it have been deleted the nominal accounts that have been used in the Final Accounts. The personal (debtors' and creditors') and real accounts remain.

Trial Balance—December 31st, 1935

	Dr.		Cr.	
	£		£	
Sundry Debtors	450			
Sundry Creditors			300	
Capital			965	
Property	340			
Furniture and Fixtures	120			
Cash & Bank	210			
Stock (December 1st, 1935)	300			
Purchases	600			
Sales			240	
Salaries	66			
Rent	20			
Sundry Expenses	8			
	£2,105		£2,105	

The stock on hand at December 31st, 1935, was valued at £350.

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The following figures remain in the Trial Balance after the Final Accounts have been prepared :

These are the figures required for the Balance Sheet.

It is the practice in this country when preparing the Balance Sheet, to place the Assets (debit balances) on the right-hand side of the Balance Sheet, and the Liabilities (credit balances) on the left. It makes no difference to the agreement of the above figures if the sides are changed over, following the practice in this country. The double entry principles are not affected, because the Balance Sheet is not an account; it is simply a statement of the financial position of the firm on a certain date. The Balance Sheet will be set out as follows :

Liabilities

	£	£
Sundry Creditors ..		300
Capital	965	
Add Net Profit ..	205	1,170
	<hr/>	
		<hr/>
		£1,470

Assets

			£
Cash at Bank	..	..	210
Sundry Debtors	..	..	450
Closing Stock	..	..	350
Furniture and Fixtures	..	..	120
Property	..	..	340
			<hr/>
			£1,470

There are good reasons for arranging the above items in certain orders, and more will be said about this later. In the meantime the student should be consistent in his arrangement and with a little practice will be able to arrange his *Liabilities* in the order in which the amounts would have to be paid if the firm discontinued trading, and the *Assets* in the order in which they could be realised in the event of an enforced closing down of the firm.

POINTS TO REMEMBER

All the balances in the Trial Balance must be used when preparing the Final Accounts and Balance Sheet. The nominal account balances are used for the Trading and Profit and Loss Accounts ; all the others are used for the Balance Sheet.

The balances are used once only.

The closing stock is used twice ; crediting the Trading Account to assist in the ascertainment of the profit, and as an asset in the Balance Sheet showing the stock possessed at that particular time.

The net profit or loss is transferred from the Profit and Loss Account to the Capital Account, and therefore increases or reduces (according to whether a profit or loss) the Capital Account balance for the Balance Sheet.

Debit balances in the Trial Balance are either losses or assets ; credit balances are gains or liabilities.

EXERCISE 42

The following Trial Balance was extracted from the books of Walter Reeves on December 31st, 1935. You are required to prepare a Trading A/c and Profit and Loss A/c for the year ended December 31st, 1935, and a Balance Sheet on that date. The Closing Stock amounted to £422.

Trial Balance					Dr.			Cr.		
					£	s.	d.	£	s.	d.
Debtors					1,250	-	-			
Creditors								690	-	-
Capital								2,960	-	-
Drawings					240	-	-			
Rents and rates					25	-	-			
Trade expenses					67	-	-			
Purchases					864	-	-			
Carried forward					2,446	-	-	3,650	-	-

Trial Balance—continued

	Dr.			Cr.		
	£	s.	d.	£	s.	d.
Brought forward	2,446	—	—	3,650	—	—
Sales				1,469	—	—
Returns outwards				28	—	—
Returns inwards	19	—	—			
Carriage inwards	23	—	—			
Wages	194	—	—			
Salaries	120	—	—			
Stock, January 1st, 1935	310	—	—			
Discounts received				24	—	—
Discounts allowed	18	—	—			
Bad debts	21	—	—			
Plant and machinery	250	—	—			
Furniture and fittings	180	—	—			
Cash in hand	5	—	—			
Cash in Bank	1,585	—	—			
	£5,171	—	—	£5,171	—	—

EXERCISE 43

From the following figures prepare Herbert Brown's Trading A/c, Profit and Loss A/c, and Balance Sheet for the year ended June 30th, 1935.

	Dr.			Cr.		
	£	s.	d.	£	s.	d.
Purchases and sales	2,760	10	—	4,600	15	—
Sundry debtors and creditors	2,834	—	—	1,121	10	—
Wages	325	—	—			
Freehold premises	1,690	—	—			
Cash in hand	25	10	6			
Cash at Bank	869	13	—			
Discounts	54	12	—	61	3	—
Rents	63	4	—			
Returns	82	3	4	91	8	—
Carriage inwards	12	13	—			
Carriage outwards	58	17	4			
Interest	70	—	—			
Commission	169	—	—			
Sundry expenses	102	10	—			
Stationery and printing	69	13	—			
Postages, telegrams, telephone, etc.	51	—	—			
Insurance	39	13	7			
Stock, July 1st, 1934	930	—	—			
Loan				1,000	—	—
Furniture and fittings	691	—	—			
Goodwill	500	—	—			
Capital				4,774	3	9
Drawings	250	—	—			
	£11,648	19	9	£11,648	19	9

Stock, June 30th, 1935 .. £750

EXERCISES

For additional practice, prepare Balance Sheets from the information given in Exercises Nos. 88, 89, 40 and 41. Remember you will require the net profit or net loss from the final accounts previously prepared.

BUSINESS TERMS AND ABBREVIATIONS

Drawings Account.—The proprietor of a business may take cash or goods from the business. These personal withdrawals are debited to a Drawings Account, and at the end of the financial period it is customary to transfer the total drawings to the debit of the proprietor's capital account, thereby reducing his capital.

Errors in Accounts.—The agreement of the totals of a trial balance is generally accepted as evidence of the accuracy of the records. The following errors or omissions do not, however, affect the agreement of the trial balance totals :

Errors of Principle.—This type of error is committed when debit and credit entries are made, but not in the right accounts, e.g., the purchase of office furniture debited to Purchases Account, instead of Furniture and Fittings Account.

Compensating Errors.—Two or more errors which result in the debit and the credit side of the trial balance being affected to the same extent.

Omissions.—The omission of an entry from a subsidiary book, and as a consequence it does not appear anywhere in the records.

CHAPTER VII

JOURNAL--CLOSING ENTRIES

IN order to ascertain the financial results of a given period, it is necessary to transfer the balance of the nominal accounts—these balances are losses and gains—to a Trading or Profit and Loss Account. The original entries of these transfers are made in the Journal. Assume the following are A's Capital and nominal accounts on December 31st, 1935, and that his unsold Stock in Trade on this date was £720 :

Dr.		A's Capital A/c			Cr.	
				1935		
				Jan. 1	By Balance ..	J £ 1,000 - -
				Dec. 31	„ Interest ..	J 50 - -
					„ Net Profit	J 1,263 3 11

Dr.		Stock A/c			Cr.	
1935				1935		
Jan. 1	To Balance ..	J £ 3,450 - -		Dec. 31	By Transfer to Trading A/c ..	J £ 3,450 - -
Dec. 31	„ Balance as per valuation ..	J 720 - -				

Dr.		Purchases A/c			Cr.	
1935				1935		
Mar. 5	To Cash ..	CB £ 57 10 6		Dec. 31	By Transfer to Trading A/c ..	J £ 9,933 3 8
Dec. 31	„ Sundry Creditors	PB 9,875 13 2				
		<u>9,933 3 8</u>				<u>9,933 3 8</u>

Dr.		Sales A/c			Cr.	
1935				1935		
Dec. 31	To Transfer to Trading A/c ..	J £ 14,697 6 5		Jan. 10	By Cash ..	CB £ 42 2 9
				Sept. 4	„ Do. ..	CB 39 12 6
				Dec. 31	„ Sundry Debtors	SB 14,615 11 2
		<u>14,697 6 5</u>				<u>14,697 6 5</u>

<i>Dr.</i>			Discount A/c			<i>Cr.</i>					
1935 Dec. 31	To Sundry Debtors " Transfer to P. & L. A/c ..	OB J	£ 116 12 4 67 0 8 183 12 7	s. s. s.	d. d. d.	1935 Dec. 31	By Sundry Creditors	OB J	£ 183 12 7 183 12 7	s. s. s.	d. d. d.

<i>Dr.</i>				Salaries A/c				<i>Cr.</i>				
1935 Dec. 31	To Cash	..	OB	£	s.	d.	1935 Dec. 31	By Transfer to P. & L. A/c	J	£	s.	d.
				673	8	4				673	8	4

<i>Dr.</i>				Interest A/c				<i>Cr.</i>					
1935 Dec. 31	To Capital	..	J	£ 50	s. -	d. -	1935 Dec. 31	By Transfer to P. & L. A/c	..	J	£ 50	s. -	d. -

<i>Dr.</i>				Sundry Expenses A/c				<i>Cr.</i>						
1935 Dec. 31				To Cash	..	OB	£	s.	d.	1935 Dec. 31				
							114	12	5	By Transfer to				
										P. & L.				
										A/c				
										..	J	£	s.	d.
												114	12	5

<i>Dr.</i>			Trading A/c			<i>Cr.</i>					
1935 Dec. 31	To Stock ..	J	£ 2,450	s. s.	d. d.	1935 Dec. 31	By Sales ..	J	£ 14,697	s. s.	d. d.
	" Purchases ..	J	9,933	3	8		" Stock ..	J	720	-	-
	" Gross Profit transferred to P. & L. A/c ..	J	2,084	2	9						
			15,417	6	5				15,417	6	5

<i>Dr.</i>			Profit and Loss A/c						<i>Cr.</i>		
1935 Dec. 31	To Salaries ..	J	£ 673	s. 8	d. 4	1935 Dec. 31	By Gross Profit	J	£ 2,084	s. 2	d. 9
	" Interest ..	J	50	-	-		" Discount..	J	67	-	3
	" Sundry Ex- penses ..	J	114	12	5						
	" Net Profit transferred to Cap. A/c ..	J	1,263	3	11						
			3,101	3	-				3,101	3	-

CLOSING ENTRIES

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The Journal entries necessary to record these transfers are as follows :

Journal				Dr.			Cr.		
1935				£	s.	d.	£	s.	d.
Dec. 31	Trading A/c .. Dr.			13,383	3	8			
	To Stock A/c ..						3,450	—	—
	„ Purchases A/c ..						9,933	3	8
	Sales A/c			14,697	6	5			
	Stock A/c			720	—	—			
	To Trading A/c ..						15,417	6	5
	Trading A/c .. Dr.			2,034	2	9			
	To Profit and Loss A/c						2,034	2	9
	Transfer of Gross Profit								
	Profit and Loss A/c Dr.			837	19	1			
	To Salaries						673	6	8
	„ Interest						60	—	—
	„ Sundry Expenses						114	12	5
	Profit and Loss A/c Dr.			1,263	3	11			
	To Capital						1,263	3	11
	Transfer of Net Profit to Capital A/c								
				32,935	15	10	32,935	15	10

It will be seen that the journal entries are grouped where this conveniently can be done. Both the Trading Account and the Profit and Loss Account are nominal accounts and conform to the rule that balances are transferred. The accounts not given are either Real or Personal. These accounts represent assets or liabilities and as such appear in the Balance Sheet. When nominal accounts are balanced, and the balances transferred as in the examples given, the accounts are closed and will not go forward to the next financial period. The balances in Real and Personal Accounts are carried forward.

EXERCISE 44

On January 1st, 1912, Henry Hart had cash in office, £120 ; cash at Bank, £425 12s. 6d. ; goods on hand, £550 10s. Debtors : A. Allen, £210 15s. 6d. ; B. Best, £860 4s. 6d. ; C. Crane, £120 7s. 6d. ; D. Dare, £175 10s. Creditors : E. Eley, £180 6s. 8d. ; F. Fish, £280 18s. 4d. Find and credit his capital. Enter in suitable books, post the Ledger, draw a T.B., balance the $\frac{1}{2}$ s, and make a Profit and Loss A/c and B/S.

1912		£	s.	d.
Jan.	1—Charge A. Allen interest on his overdue %	1	1	8
"	1—Purchased goods with cheque	215	7	6
"	2—Received cheque in full discharge of Dare's % and paid into Bank	153	11	3
	Wrote off his balance as bad debt.			
"	3—Received cheque from A. Allen	211	17	2
"	4—A. Allen bought goods of me	180	12	6
"	4—Paid charges for him from office cash ..	1	7	6
"	5—Received cheque from A. Allen	82	—	—
"	6—Sales to A. Allen	57	3	4
"	6—Paid wages from office cash	4	10	—
"	8—B. Best sent his cheque, £351; allowed discount	9	4	6
"	9—Sold goods to B. Best	250	10	2
"	9—Paid rent with cheque	20	—	—
"	10—Purchases from C. Crane	25	10	—
"	11—Recd. cheque from C. Crane, £90 10s. 6d.; discount	4	7	—
"	12—C. Crane bought goods	110	8	4
"	13—Paid rates with office cash	6	3	4
"	13—Received a cheque for goods	150	6	8
"	15—Received cash for a bad debt	16	5	—
"	16—Posted a cheque to E. Eley, £127 10s.; discount	2	16	8
"	17—Bought goods of E. Eley	155	7	6
"	17—Drew cheque for self	25	—	—
"	18—Drew a cheque for E. Eley	105	7	6
"	19—E. Eley sold me goods	140	13	4
"	20—Paid wages with office cash	4	10	—
"	22—F. Fish bought goods	130	—	—
"	23—Posted cheque to F. Fish, £147 6s. 8d.; discount	3	6	8
"	24—Purchases from F. Fish	245	4	10
"	25—Bought goods from K. King	78	2	6
"	26—Sent King a cheque for half cost of goods	39	1	3
"	27—L. Lane bought goods of me	120	1	3
"	29—Sent cash to Bank	100	—	—
"	31—Interest on capital	6	13	4
	Goods on hand, £241 3s. 8d.			

(National Union of Teachers.)

EXERCISE 45

1. Explain: cheque, insurance, commission, bankrupt, insolvent, composition.
2. A friend in a merchant's office tells you that he keeps a Sales Ledger. Give a short account of his daily work.
3. A merchant examines some of his books and notes that

the Cash Book is £50 in debit. John Brown's $\frac{a}{c}$ is also £50 in debit, but Discount A/c is £50 in credit. Say exactly what these figures mean.

On January 1st, 1913, Z. Zeno had cash in office, £69; cash at Bank, £535 7s. 6d.; goods on hand, £650 12s. 6d. Debtors: Q. Quick, £325 10s.; R. Rich, £450; S. Saint, £265 10s. Creditors: T. Turk, £175 13s. 4d.; U. Ure, £100 6s. 8d.; V. Vine, £220. Find and credit his capital. Enter the transactions in suitable books, post to the Ledger, draw out a Trial Balance, balance the $\frac{a}{c}$ s, and make a Profit and Loss A/c and B/S. (*N.B.*—All cheques are to be passed through the bank same day.)

1913		£	s.	d.
Jan.	1—Received cheque from Q. Quick, £315 6s.; discount £10 5s.			
„	2—Charged R. Rich interest on his account	3	15	—
„	3—R. Rich bought goods	215	7	6
„	4—Paid wages—office cash	8	7	6
„	6—Sales to Q. Quick	180	12	6
„	7—Received cheque from R. Rich	453	15	—
„	8—Paid gas $\frac{a}{c}$ —office cash	7	10	—
„	9—Recd. cheque from Q. Quick, £177 12s. 6d.; discount £3.			
„	10—Received cheque from the trustee of S. Saint in full discharge of his $\frac{a}{c}$, £232 6s. 3d.; wrote off balance as bad debt	33	3	9
„	11—Paid T. Turk, cheque, £171 6s. 8d.; discount	4	6	8
„	13—Q. Quick purchased goods	190	10	6
„	14—Received cheque from R. Rich	107	13	9
„	15—T. Turk sold us goods	150	7	6
„	16—Sent office cash to Bank	20	—	—
„	17—Purchases from T. Turk	275	17	6
„	18—Paid wages—office cash	8	7	6
„	20—Drew a cheque for U. Ure, £97 3s. 4d.; discount £3 3s. 4d.			
„	21—Received a cheque for goods	80	6	8
„	22—Drew a cheque for T. Turk, £147 10s.; discount £2 17s. 6d.			
„	23—Purchases from U. Ure	180	10	6
„	23—Sales to W. Ware	270	15	—
„	24—Received cheque for bad debt written off last year	35	—	—
„	25—Sales to V. Vine	112	7	6
„	25—Received W. Ware's cheque	135	7	6
„	27—Paid water rate with office cash	4	18	—

1913	£	s.	d.
Jan. 28—Drew a cheque for V. Vine, £104 10s.; discount £3 2s. 6d.			
„ 29—Bought goods from V. Vine	265	12	6
„ 30—Drew cheque for clerks' salaries	35	—	—
„ 31—Z. Zeno drew a cheque for self	25	—	—
„ 31—Interest on capital	7	10	—
Goods on hand, £606 7s. 7d.			

(National Union of Teachers.)

EXERCISE 46

- (a) Why is it better to keep Purchases and Sales Day Books instead of journalising purchases and sales ?
(b) What is the difference between cash sales and goods sold on credit ?
- Explain the term “Books of Original Entry” and state what these are.
- The following balances appeared in the books of Peter Sage and on December 31st, 1929, his assets and liabilities were :
Cash at Bank, £426 ; Cash in hand, £27 ; Stock, £625 ; Furniture and Fittings, £225 ; Plant and Machinery, £110 ; Debtors : A. Hope & Co. Ltd., £108 ; T. Jefferson, £53 ; D. Lestrade, £76 ; Creditors : W. Watson & Son, £123 ; L. Murray, £225 ; S. Stanger, £62. His transactions for the month of January were :

	£	s.	d.
Jan. 1—Received cheque of A. Hope & Co. Ltd. on account	50	—	—
„ 2—Sold goods to D. Lestrade	93	10	0
„ 3—Sold goods to T. Jefferson	125	15	—
„ 4—Paid cheque to W. Watson & Son and was allowed discount £3	120	—	—
„ 5—Bought for cash goods value	5	—	—
„ 6—Cash Sales	23	—	—
Paid cash for carriage	12	6	
Paid wages in cash	25	—	—
Paid sundry Trade Expenses	1	10	—
„ 8—D. Lestrade returned goods damaged in transit	7	10	—
„ 9—Purchased goods of W. Watson & Son	143	10	—
„ 10—Purchased goods of L. Murray	133	—	—
„ 11—Sold goods to T. Jefferson	225	—	—
„ 12—Received cheque from A. Hope & Co. Ltd.; wrote off the balance of their account as bad	25	—	—
„ 13—Paid by cheque fire insurance premium	1	15	—
Drew cheque for office use.. ..	75	—	—

	£	s.	d.
Jan. 13—P. Sage drew for his own use, cash ..	20	—	—
Paid cash for repairs	3	7	6
Paid wages in cash	28	10	—
„ 15—Received credit note from W. Watson & Son for goods damaged	12	10	—
„ 16—Paid L. Murray cheque on account ..	100	—	—
„ 17—Received from T. Jefferson cheque value ..	122	10	—
Allowed him discount	3	5	—
„ 18—Bought goods from S. Stanger	43	10	—
„ 19—Sold goods to D. Lestrade for cash £5 10s. On credit £108.			
„ 20—Paid wages by cheque	23	—	—
Paid sundry expenses in cash	2	3	—
„ 22—Paid L. Murray cheque value	121	17	6
and was allowed discount	3	2	6
„ 23—Bought goods of L. Murray	72	10	—
„ 24—Sold goods for cash	43	—	—
„ 25—Paid into Bank from office cash	25	—	—
„ 26—Cash purchases	7	10	—
„ 27—Drew cheque for office use	75	—	—
P. Sage drew cash for his own use ..	20	—	—
Wages paid in cash	27	10	—
„ 29—Purchased goods from W. Watson & Son ..	58	—	—
„ 30—Paid to S. Stanger cheque value	60	—	—
and was allowed discount	2	—	—
„ 31—Stock on hand	657	—	—
Interest to be allowed on capital £2 10s.			
All cheques received paid into Bank.			

Enter the above transactions in the proper books, post to the Ledger, balance all accounts, and prepare Trading Account and Profit and Loss Account and Balance Sheet.

BUSINESS TERMS AND ABBREVIATIONS

Currency.—Currency is a medium of exchange, a natural development in the progress of mankind, for barter at best was a clumsy and unsatisfactory method. Shells, tobacco, bars of iron, and other things have at different times served as currency; but the modern world has with effectual unanimity decided that gold and silver best serve the purpose.

Paper Money.—Cheques, bills of exchange, bank notes, Treasury notes, and other forms of business paper which pass as money have now largely superseded gold and silver; but all paper money is a claim to gold, and except in relation to gold would be almost meaningless and valueless.

CHAPTER VIII

BANKING


It is unwise for a trader to keep money on hand that is not required for use in the normal way of business, therefore an account is opened at a bank, and the trader deposits or "lodges" his money with the bank. Sums of money are added to this from time to time and the banker takes care of the money for the trader, who withdraws it as required.

The bank then issues a *Pass Book*, which shows the amounts paid into and out of the account—it will in fact be a copy of the bank columns in the trader's cash book, although sometimes the sides may be reversed, because the banker may enter into the *Pass Book* the details as seen in *his* ledger, that is, show the entries from his point of view instead of from the trader's.

The more modern practice is to issue sheets, giving details of the account ; these sheets then serve the same purpose as the *Pass Book*.

When paying money into the bank a *Paying-in slip* is completed. A specimen of this is given. On the slip details of the various kinds of money paid into the bank are recorded, so that the banker can check what he is receiving. These *Paying-in slips* are usually bound in book form and are supplied free of charge by the bank where the trader has his account. The slip has a duplicate so that a copy can be made. Sometimes there are three slips side by side so that two copies can be made. This is useful when a branch office of a business wishes to send a copy to the Head Office and also keep a copy.

An example of a cheque is given below.

<p>238/A 121207</p> <p><i>3rd June 1925</i></p> <p><i>A Ramsley</i></p> <p><i>Birmingham</i></p> <p><i>£10</i></p>		<p>L/26</p> <p>238/A 121207</p> <p>MIDLAND BANK LIMITED.</p> <p><i>London, Birmingham & Midland Bank</i></p> <p>CITY SQUARE, LEEDS</p> <p><i>Pay: A Ramsley</i></p> <p><i>Leeds 3rd June 1925</i></p> <p><i>or bearer</i></p> <p>[Redacted area]</p>
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Date _____ 193_____

Cr.

CHEQUES	£	s.	d.
<div style="border: 1px solid black; padding: 5px; display: inline-block;"> Total Number of Cheques </div>			
TOTAL			
Bank of England Notes) (£5 and upwards)			
Bank Notes £1			
" " 10/-			
Country Notes			
Sovereigns			
Half-Sovereigns			
Silver and Copper			
TOTAL ..			

The portion on the left-hand side of the cheque is called the counterfoil and is separated from the rest of the cheque by the perforation. When the cheque is signed, it is torn off, and the details entered on the counterfoil serve as a record of the instructions given to the bank. Books of cheques are obtained from the bank where the trader has his account. It is necessary to complete and sign a simple form when requiring a cheque book, because the banker must be sure that only his customers are given the blank cheques. No charge is made for the cheques, but the stamp duty of *2d.* on each cheque must be paid. Books containing various numbers of cheques are supplied by the banks.

Cheques that are being paid into the bank must be endorsed (except in certain cases), that is, they must bear the trader's signature on the back of the cheque or the signature of his authorised representative. The back of one of the cheques paid into the bank (which would be recorded on the paying-in slip) would look like this :

per pro John Jones & Co.,
A. B. Smith,
Cashier.

(More information is given about endorsements on page 148.)

When paying cheques into the bank we ask the bank "to credit our account," or we say, "the cheques are being credited." Do not be confused by this. When the banker receives our money he will debit his cash book and credit our account. Hence we speak of "crediting our account."

There are two principal kinds of bank accounts, Deposit and Current.

The Deposit account is one into which amounts are paid or deposited. Usually there is a fixed rate of interest allowed and it may be necessary to give notice to the bank before withdrawing cash.

The Current account is the one with which we are now principally concerned. Into this account the trader pays his money (by completing a paying-in slip on each occasion) and withdraws it at will by using cheques.

When the trader wishes to make payments by means of cheques he completes a blank cheque. This is sent to his customer or creditor, who can *present* it to the drawer's banker for payment, or what is more usual, hand it to his own banker,

who will collect it for him. The customer's banker will then send it (usually through what is called the Clearing House) to the trader's banker, who records the amount in the trader's account, reducing his balance by the amount of the cheque. The bankers themselves have a settling later.

Although the trader makes an entry on the credit side of his cash book as soon as a cheque is sent to a customer, the banker does not make an entry until he receives the cheque from the customer or the customer's banker. He does not know anything about the cheque until that time. Then, similarly, the trader will enter in the debit column of his cash book (bank column) amounts paid into the bank, but the banker may not credit the trader's account with those items if cheques are included in the amounts paid in—he will wait until he has *collected* the amounts of the cheques from the banker on whom they have been drawn.

RECONCILING CASH AND BANK BALANCES

The difference between the amount of cash received and the amount paid out should agree with the money which actually remains in the cash-box. That is the obvious way to check.

Checking the bank balance is not quite so simple. The bank money column on the debtor side of the Cash Book shows how much money has been placed in the hands of the banker, and the credit side shows how much the banker has been instructed to pay out on behalf of the owner of the Cash Book. All things being settled, the balance at the bank would be the difference between the debit and credit sides—and this may agree with the amount shown in the Bank Pass Book, which is generally a copy of the account as it appears in the bankers' Ledger. But the bank balance in the Cash Book and the Bank Pass Book balance are rarely in agreement. During the course of trading you send to the banker all kinds of business paper (such as cheques) which passes as money. The banker does not enter these amounts in your Bank Pass Book until he has actually "collected" the cash. There is still another reason. When you write out a cheque and pass it to one of your creditors, you enter the amount to the credit of your Bank Account at once, but the banker will not enter the transaction in your Bank Pass Book until the cheque is presented for payment.

A moment's reflection will make it clear, then, that the balance shown in the bank columns of your Cash Book will not as a rule be the same as that shown in your Bank Pass Book, because while your actual balance is shown in the former, the Bank Book balance may be larger or smaller for the above reasons. Take an example, where the bank balance shown in the Cash Book amounts to £238, and the balance shown in the Bank Pass Book is £242.

By comparing our Cash Book with our Bank Pass Book we discover that Robertson and Smith Bros. have not yet presented their cheques for £20 and £8 respectively, and that cheques for £24 which we paid in have not yet been credited to us.

In order to make these balances agree, a Reconciliation Statement is made as follows :

Bank Reconciliation Statement

Balance as per Bank Pass Book	£242
Deduct cheques not presented :	
J. Robertson £20	
Smith Bros. 8	28
	<hr/>
	£214
Add cheques paid in but not credited ..	24
	<hr/>
(Agrees with Bank balance in C.B.)	£238
	<hr/>

We could begin with the Cash balance and show the Bank balance as reconciled. In this case the Reconciliation Statement would be :

Balance as per Cash Book	£238
Deduct cheques paid in but not credited ..	24
	<hr/>
	£214
Add cheques not presented :	
J. Robertson £20	
Smith Bros. 8	28
	<hr/>
(Agrees with balance in B.P. Book)	£242
	<hr/>

EXERCISE 47

The balance shown in the Bank Pass Book is generally different from the balance shown in the Bank column of the Cash Book. Why is this ?

EXERCISE 48**A**

On September 30th, 1935, Mr. Edward Phillips, senior partner of Messrs. Phillips & Guy, asked the cashier for the Bank Pass Book and the firm's Cash Book. On that date the Pass Book balance was £508 19s. 8d., while the Cash Book showed a debit balance of £502 17s. 6d. Mr. Phillips asked the cashier to account for the difference. Prepare a suitable statement from the following information: Cheques received, paid into the bank but not yet credited—L. Fox, £60 9s. 6d.; E. Black, £88 7s. 11d.; L. Jones, £9 8s. 4d. Cheques sent to creditors but not yet presented by them for payment—New Co., Ltd., £57 9s. 11d.; J. Shaw, £64 18s.; Levy Bros., £186 10s. Cheques received but not paid into bank—H. G. Holmes, £98 2s.; M. Knox, £51 8s.

B

The financial year of the above business ended on December 31st, 1935, when it was necessary to reconcile the balance of the Cash Book with the Bank Pass Book. The Cash Book balance was £497 12s. 3d., and it was found on examining the Bank Pass Book that cheques from L. Jones, £15 6s. 2d.; Herbert Black & Co., £98 8s. 7d.; E. J. Saville, £62 10s., had not yet been credited, while cheques sent to New Co., Ltd., £89 12s. 6d.; George Hope, £15 10s.; B. M. Stone, Ltd., £51 8s. 10d., had not been presented for payment.

What would be the balance of the Bank Pass Book at the time it was examined? Prepare a statement reconciling the balances.

C

From the undermentioned particulars prepare a Reconciliation Statement. Cash Book balance on the 29th February, 1936, £428 7s. 6d. Pass Book balance, £752 9s. 6d. Cheques paid into Bank but not collected on the closing date: Smith & Sons, £52 10s.; J. Wilson, £8 7s. 6d.; Sam Browne, £10 10s. Cheques drawn but not yet presented: W. Davis, £250; J. Trott, £74 1s. 6d.; G. Perkes, £21 8s.; N. Muirhead, £50.

D

At December 31st, 1904, Edward Jones's Bank balance, by his Pass Book, stood at £857 10s. 6d. to his credit : the following cheques, however, drawn by him had not yet been presented, and were consequently outstanding on December 31st, 1904 : No. 1769, William Thompson & Co., £204 6s. 8d. ; No. 1772, Elihu Bowen, £125 ; No. 1773, Samuel Edwards, £15 ; while, on the other hand, of the cheques paid in by him on that day, £850 8s. 9d. (a country one) had not been cleared, and therefore was not credited till some days after. Draw up a Reconciliation Account between Edward Jones's Bank Pass Book and his Cash Book, and state what his actual Cash balance, as shown by his Cash Book, was at December 31st, 1904.

(*Institute of Bankers, Preliminary.*)

ALTERNATIVE FORM OF CASH BOOK

Many traders have a details column in their cash books instead of the usual cash column. Money received is debited in the ordinary way in this column. When it is desired to pay the money into the bank the amount that has been received is extended into the debit bank column. No entry is made on the credit side. For example, from the Cash Book below you will see that various amounts have been received and paid into the bank daily ; no amount has been left in the details column, but the amount of money in the bank account has been increased.

Dr.		CASH BOOK										Cr.				
1936		Dis.		Details		Bank		1936		Dis.		Details		Bank		
		Fol.	£	s.	d.	£	s.	d.		Fol.	£	s.	d.	£	s.	d.
Jan. 1	To Balance ..					470	10	2								
	„ Jones, J.		10	-	19	10	-									
	„ Lee, W. ..				8	2	4									
	„ Smith & Co.	4	1	6	120	-	-	142	12	4						
„ 2	„ Brown, A.		16	-	74	4	-									
	„ Allen, B.				8	12	3									
								77	16	3						

On the credit side, similarly, there is a details column, and when it is desired to pay amounts in cash, the various items are recorded with the amount to be paid entered in the details column. The total is extended and money withdrawn from the

ALTERNATIVE FORM OF CASH BOOK 103

bank for that amount. If we wish to pay wages £15 10s., John Smith's account £3 2s., and purchase National Health stamps 10s. 6d., we should require £19 2s. 6d. and a cheque will be drawn for that amount. Our Cash Book would now appear as follows :

Dr.		CASH BOOK										Cr.					
16		Fol.	Dis.	Details			Bank	1936		Fol.	Dis.	Details			Bank		
			£	s.	d.	£	s.	d.			£	s.	d.	£	s.	d.	
1	To Balance ..							470 10	2	Jan. 2	By Wages			15 10			
	„ Jones, J.		10	-							„ Smith, J.			3 2			
	„ Lee, W. . .					3	2	4			„ N.H.I.						
	„ Smith & Co.		4	1	6	120	-				stamps			10 6			
								142 12	4						19	2	6
2	„ Brown, A.		16	-		74	4	-									
	„ Allen, B.					3	12	3									
								77 16	3								

Notice that there are no contra entries.

If an amount is received by the trader and paid into the bank, of course there is no need to enter this in the details column first : it should be entered into the bank column immediately.

Posting follows the ordinary rules.

When a cash book of this type is used in combination with a petty cash book kept on the imprest system the totals of the analysis columns in the Petty Cash Book can be shown in the details column of the Cash Book. Extending these figures into the bank column will show the amount of the cheque drawn for the petty cashier. The petty cash details can be posted from the Cash Book instead of from the Petty Cash Book in the ordinary way.

The example below shows how the Cash Book would appear if kept on this method when the cheque was drawn for the petty cashier in the exercise on page 69.

Dr.		CASH BOOK		Cr.		
Dis.	Details	Bank		Dis.	Details	Bank
			1880			
			Jan. 11		By Petty Cash	
					Postage ..	2 2 -
					Stationery ..	1 6 -
					Carriage ..	1 3 -
					Cleaning ..	1 1 -
					Jones, R.	10 -
						6 2 -

EXERCISE 49

From the following details prepare a trader's Cash Book. The trader uses a details column instead of a cash column.

1936		£	s.	d.
Jan. 1—	Balance at Bank	126	10	2
	Received from White, R.	20	10	—
	Received from Jones & Co.	9	15	—
	Discount allowed Jones	5	—	—
	Cash Sales for to-day	13	7	8
	Paid cash on hand into bank.			
„ 2—	Received from Lee & Holmes	7	10	6
	Received from Williams Ltd.	43	6	4
	Cash Sales	10	18	9
	Paid cash on hand into bank.			
	Sent cheque to Brown & Son, having deducted 2½% dis.	19	10	—
„ 3—	Received cheque from Hodges	72	—	—
	Received cash from Elliott & Co.	7	13	7
	Cash Sales	9	12	6
	Paid sum on hand into bank.			
	Sent cheque to Johns Bros.	16	12	—
	Drew cheque and paid following :			
	Wages	£16	10	—
	N.H.I. stamps	10	6	
	Cleaning	15	—	
	Newsome's A/c	3	1	2
	Travelling Exs.	6	3	
			21	2 11

EXERCISE 50

From the following details prepare a Cash Book bearing in mind that all money on hand is banked daily and that cheques are drawn for amounts to be paid.

1936		£	s.	d.
Feb. 1—	Balance at Bank	431	12	6
	Received cheque from Smythe	46	13	4
	Allowed discount	1	6	8
	Received from Mills & Co.	3	16	2
	Received from Sharpe	14	9	—
	Sent cheque to Simms, Ltd.	39	12	6
	Deducted discount	1	7	6
	Paid wages in cash	16	12	6
	Paid rent in cash	3	10	—
	Paid Hague's A/c in cash	1	6	—

1936		£	s.	d.
Feb. 2—	Sent cheque to Patrick	82	10	—
	Cash Sales	41	16	3
	Received money order from Harrison ..	5	10	—
„ 3—	Received from J. Jenkins	3	12	1
	Received from E. Abrahams	16	11	6
	Who had deducted 2½% discount.			
	Cash Sales	24	3	4
	Paid Jordan's A/c £1 10s. 6d. and Oldham's A/c 15s. 6d., by cash.			
	Sent cheque to Horder & Sons	17	6	8

Balance the Cash Book.

EXERCISE 51

- On April 1st, 1984, S. Exton, an undertaker, bought a motor hearse for £800. Show the entry for this in the appropriate account in his ledger, write off depreciation at 20 per cent. per annum, and bring down the balance on March 31st, 1985.
In which of S. Exton's ledgers should this account appear?
- Distinguish briefly between *any two* of the following pairs :
 - Debit Balance and Credit Balance.
 - Assets and Liabilities.
 - Partner's Capital Account and Partner's Current Account.
- Give the Journal entries required to correct the following errors in the books of S. Elf, a fishmonger :
 - Drawings of £50 by S. Elf on June 17th, 1984, posted to Wages.
 - Purchases on credit from J. Huggins on June 19th, 1984, £17 10s., posted in both accounts as £10 17s.
 - £75 received on June 21st, 1984, for the sale of a motor-van, posted to Motor Expenses Account.

EXERCISE I

Mr. Charles Cantuar, a grocer, gives you the following Balance Sheet, which he has drawn up, and asks you to correct it.

**Balance Sheet of Mr. Charles Cantuar for the year ended
December 31st, 1934**

<i>Liabilities</i>		<i>Assets</i>	
	£		£
Mr. Charles Cantuar's Capital Account :		Furniture, Fixtures & Fittings, etc., as at December 31st, 1933 ..	780
Balance b/f at December 31st, 1933 ..	1,000	Freehold Premises as at December 31st, 1933 ..	3,000
Drawings added	512		
Loan received from Mr. Eric Ebor ..	2,000		3,780
	—	Sundry Debtors at December 31st, 1934 ..	3,437
Sundry Creditors at December 31st, 1934 ..	4,600	Cash in Hand ..	147
Bank Overdraft ..	146	Stock-in-Trade at December 31st, 1933, as valued by Mr. Cantuar ..	1,641
	—		
Depreciation at 10% p.a. ..	78		
Current Account (being Charles Cantuar's credit balance not drawn out of business at December 31st, 1933)	513		
	—		
Profit & Loss Account — Net profit for the year ended December 31st, 1934 ..	156		
	—		
	£9,005		£9,005

On checking his figures you find that they are correct, his Net Profit for the year ended December 31st, 1934, being correctly stated as £156. His Stock figures were, according to his own valuations, £617 at December 31st, 1934, and £1,641 at December 31st, 1933.

You are required to correct the errors he has made, and to show the Balance Sheet drawn up in the proper order and form.

EXERCISE II

A. Bath and C. Wells agreed to start in partnership as radio dealers on March 1st, 1934. Their Capitals were to be : Bath, £2,000 ; Wells, £100.

Bath had Plant and Machinery worth £569 11s. 4d. and Stocks of Wireless Sets and Spare Parts valued at £629 1s. 4d. He brought these into the partnership in part settlement of the Capital he was to contribute, and paid a cheque for the balance of the £2,000 into the partnership bank account on March 1st, 1934. On the same day Wells put in his £100 Capital in cash; this was not banked but was retained in the office to meet current expenses.

Open the accounts to record the above, through the Journal; and through the proper subsidiary books record the following transactions in the partnership books:

1934

Mar. 1—A cheque book was issued to the firm by the Bank, who charged the firm's Bank account with 8s. 4d. in consequence.

„ 2—Cheque paid B. Ailiff for Rent, £86 13s. 4d.

„ 5—Cheque paid to Safe Insurance Co. for various Insurances (Fire, etc.), £102.

„ 8—Paid by Cash:

Wages	..	..	..	£13	18	2
Drawings (C. Wells)	..			£3	10	0
Stationery & Postages	..			£2	11	7

Week's Cash Sales, £17 2s. 3d. Of this £15 was banked on this day.

„ 11—Bought and paid for from office cash, Machinery £13 13s.

„ 12—Bought on credit from Sarum & Co. for use on wireless sets: 1 dozen Mahogany Cabinets at £1 10s. each, less Trade Discount of 25 per cent.; also Half-groas Fumed Oak Cabinets at 15s. each.

„ 15—Paid by Cash:

Wages	£14	17	6
-------	----	----	----	-----	----	---

Banked £50, being part of £61 15s. 7d., the week's Cash Sales.

„ 19—Sold and invoiced to Wapping Boat Co. a Wireless Set for each of their 20 tugs, at £45 each.

„ 21—Received from Wapping Boat Co. 1 Wireless Set, returned as being faulty. Gave them full credit for this returned set. They also remitted cheque for £500 on account, which was banked immediately.

„ 22—Paid by Cash:

Wages	£15	2	11
-------	----	----	----	-----	---	----

Paid into Bank £94 1s. 11d., all the week's Cash Sales.

„ 24—Returned to Sarum & Co. as faulty half the Mahogany Cabinets, paying them, by cheque, the balance of their account, after having taken 10 per cent. as Cash Discount.

„ 25—Bought on credit from Sarum & Co. some Timber for use in the manufacture of the sets; 2,000 assorted pieces at £18 15s. per 100.

1934

Mar. 29—Cash Sales for week were £47 2s. 8d., none of this was banked.

Paid by Cash :

Wages	..	..	..	£6 16 9
Stationery & Postages	..			£1 16 9

Drew £50 cash from Bank, which was taken in equal shares by the partners for private expenses.

„ 31—Wapping Boat Co. paid a cheque to settle, with exception of £100, their account. This was banked immediately.

Bring down the balances and prepare a Trial Balance as on March 31st, 1934.

No Trading Account, Profit and Loss Account, or Balance Sheet is to be prepared.

(*R.S.A. Elem.*, 1935.)

EXERCISE 52

PART I

1. Briefly state what you know of *any two* of the following :

(a) Drawings.

(b) Returns outwards.

(c) Debit note.

In which of the Books of a trader would you expect to find the entries relating to the two you choose ?

2. T. Woolpack is a dealer in textiles. He divides his business into three departments—Linens, Cottons, and Woollens.

Give the ruling of a purchase book suitable for his use, and enter therein the following purchases from B. Blank Limited :

1934

July 12—3,000 pieces of linen damask at £1 per piece, less 25 per cent. trade discount.

200 yards of West of England woollen cloth at 6s. 3d. per yard.

„ 31—33 gross of assorted cotton goods at £19 per gross.

A job lot of assorted goods, linens value £50, and cottons value £100.

Add up and rule off the purchase book, and state which figures would be posted to the ledger, to which accounts they would be posted, and to which side of such accounts they would go. (Ledger accounts are not to be opened.)

8. Give journal entries recording the following in the books of S. Simon, a baker :

1934

Dec. 27—Shop fittings valued at £45 and flour worth £65 received in exchange for a delivery van priced at £110.

1934

- Dec. 28—The correction of an entry by which £40 rent paid for his private house was posted to the shop rent account.
- „ 29—A credit note for £22 sent to Goodfare Limited in respect of goods returned.

PART II

EXERCISE I

On June 1st, 1934, O. Kay took over the coal merchant's business of N. Gee. He agreed to pay N. Gee £20,000 for the assets, which were as follows : Motor lorries, £5,800 ; Stock of coal, £9,000 ; Railway wagons, £5,200.

Make the necessary Journal entries and open the ledger accounts.

The following transactions are then to be entered in O. Kay's ledger through the proper subsidiary books :

1934

- June 1—O. Kay paid £20,000 into a bank account, as his capital, and paid N. Gee therefrom £18,000 on account of the £20,000 due to him.
- „ 2—Sold six motor lorries for £1,500 cash, which was banked.
Delivered 780 tons of Anthracite Nuts at 60s. per ton to Woudie Asylum, and sent an invoice for the sale.
- „ 3—Paid, by cheque, the following :
Rent of offices and yard, £268 12s. 0d.
£16 for stationery.
G.W. Rly. carriage charges of £273 on the coal delivered to Woudie Asylum.
- „ 4—Cash sales £34 16s. 2d. paid into office cash.
- „ 5—Drew, and cashed cheque for £100 for office use.
Paid, from office cash, Wages, £24 2s. 11d. ; Drawings, £37 10s. 0d. ; Petrol and Oil for lorries, £32 9s. 10d.
Cash sales £72 2s. 4d. paid into bank.
- „ 6—Received, and banked, a cheque from Woudie Asylum for half the amount of the invoice sent them on June 2nd.
Agreed to credit Woudie Asylum with 4s. per ton in respect of 600 tons of the coal which was not up to sample.
Banked a cheque for £28 2s. 0d. received as rent for part of the coal yard sublet.
- „ 8—Paid to J. Phillips, a salesman, from office cash, 2½ per cent. commission on the cash received on June 6th from Woudie Asylum.

The whole of the office cash balance was banked.

Balance the cash book and ledger accounts, bring down the balances, and extract a trial balance as on June 8th, 1934.

No Trading Account, Profit and Loss Account or Balance Sheet is to be prepared.

EXERCISE II

B. Simon and H. E. Mann, partners in a Mineral Water business, extracted the following Trial Balance at March 31st, 1985, covering the year's trading to that date :

	Dr. £	Cr. £
Capitals : April 1st, 1934 :		
Simon	—	2,200
Mann	—	1,900
Drawings during year :		
Simon	212	
Mann	212	—
Plant (at April 1st, 1934)	1,450	—
Do. (additional purchases)	350	—
Lorries (at April 1st, 1934)	2,900	—
Carriage on Sales	225	—
Debtors and Creditors	1,265	3,151
Bad Debts written off	433	—
Stock in trade (at April 1st, 1934)	1,017	—
Purchases and Sales	12,614	18,423
Returns Inwards and Outwards	331	287
Discounts allowed and received	275	164
Wages	3,281	—
Salaries	1,051	—
Rents and Rates	320	—
Office Expenses	327	—
Licences and Insurances, etc.	221	—
Bank Overdraft	—	403
Cash in Hand	44	—
	<u>£26,528</u>	<u>£26,528</u>

The closing Stock in Trade was £2,139. Simon and Mann share profits equally.

You are required to draw up Trading and Profit and Loss Accounts and Balance Sheet for the partnership.

(R.S.A. Elem., 1985.)

EXERCISE 53

1. What is a Balance Sheet ?

In what ways does it differ from a Trial Balance ?

2. (a) Depreciation at 10 per cent. is to be written off Plant and Machinery standing in the books at £3,285.

Give the journal entry required to effect this on December 31st, 1984.

(b) S. House, a builder, has a motor-car which he uses partly for business purposes and partly for taking his family on holidays. During the year ended December 31st, 1984, the whole cost of running the car has been charged to his business, and appears on the following accounts :

	£
Car running expenses account	124
Driver's wages account	156
	<hr/>
	£280
	<hr/>

S. House agrees that the business should only bear three-fourths of this expenditure. Show by journal entry how you would make the desired adjustment.

3. Z. Cobb and R. Cobb are in partnership, sharing profits and losses as to two-thirds and one-third respectively.

You are required, from the following information, to show their capital and current accounts in the ledger for the year ended September 30th, 1984 (no journal entries are required).

	Z. Cobb £	R. Cobb £
Capitals (Balances at October 1st, 1933)	8,800 Cr.	3,600 Cr.
Current Accounts (Balances at October 1st, 1933)	203 Cr.	104 Dr.
Additional capital brought in on April 1st, 1934	1,200	1,400
Drawings during year	2,000	1,500

The profit for the year ended September 30th, 1984, was £2,970, out of which interest at 5 per cent. per annum on their capitals is to be credited to the partners.

4. Enter the following in a three-columned Cash Book :

1935

- Jan. 1—£300 paid in by the proprietor, C. Roberts, on commencing business. Of this £200 was banked and £100 was put into the office cash box.
- „ 2—An amount of £37 10s. due to W. Jones for goods purchased on credit was settled by cheque, after deducting $7\frac{1}{2}$ per cent. cash discount.
- „ 3—Bought goods £37 10s., less trade discount $7\frac{1}{2}$ per cent., and paid cash for them.

1935

Jan. 4—Cash Sales £40, of which £30 was banked.

R. Smith, who owed £80 on an invoice subject to 10 per cent. trade discount and 5 per cent. cash discount, settled his account by cheque.

„ 5—Drew and cashed cheque for £25 and paid wages of that amount. Paid, from office cash, butcher's bill (private expense), £6 2s. 8d., and £19 for an office safe.

No ledger accounts are to be opened, but you are required to state against each item the name of the account to which it should be posted. Close the Cash Book and bring down the balances as on January 5th, 1935.

EXERCISE

B. Perkins commenced trading on April 1st, 1934, as a hop merchant. The following Trial Balance was extracted from his books on March 31st, 1935. You are required to prepare Trading and Profit and Loss Accounts for the year ended March 31st, 1935, and a Balance Sheet as on that date. The Stock at March 31st, 1935, was valued at £890.

	Dr. £	Cr. £
Sundry Debtors	1,490	—
Sundry Creditors	—	1,861
Capital	—	3,000
Freehold Premises	3,100	—
Drawings	586	—
Purchases	2,919	—
Sales	—	4,809
Insurance for the year	78	—
Insurance premiums paid in advance for the period April 1st, 1935, to September 30th, 1935	43	—
Office salaries	135	—
Warehouse wages	1,029	—
Returns	153	110
Bank overdraft	—	555
Carriage inwards	134	—
Carriage outwards	68	—
Fixtures and Fittings	365	—
Loan : B. Eason	93	—
Salesmen's Travelling expenses	126	—
Cash in hand	19	—
Loan interest received	—	3
	<u>£10,338</u>	<u>£10,338</u>

(R.S.A. Elem., 1935.)

1. Explain concisely the following terms :
Trade Discount, Credit Note, Statement.
2. Show by means of entries in the journal of A. Hobson, the double entry for each of the following :
 - (a) Purchased from Exhibits Ltd., on credit, a showcase costing £10 10s.
 - (b) Goods valued £100, returned to Hobson, debited in error to Purchases Account to be corrected.
 - (c) A. Hobson took from stock goods worth £25 for his personal use.
3. The following represent copies of the Bank Column of the Cash Book and the Bank Pass Book of William Wells. You are required to prepare from the information given a Bank Reconciliation Statement.

Bank Pass Book									
		£	s.	d.			£	s.	d.
Dec. 24	To Balance	360	12	—	Dec. 31	By N. Smith	144	7	6
„ 28	„ J. Jackson	56	10	—	„	Balance	396	5	9
„ 29	„ E. Barber	120	8	9					
„ 31	„ Interest	3	2	6					
		<hr/>					<hr/>		
		£540	13	3			£540	13	3
		<hr/>					<hr/>		
Dec. 31.	To Balance	£396	5	9					

On June 1st, 1984, C. Ferguson and D. Jarvis commenced business as partners. They contributed a total capital of £8,000, in equal shares, which was banked.

Open the accounts necessary to record the above information in their ledger, and post thereto, through the proper subsidiary books, the following transactions :

1934

- June 1—Furniture and Fittings £120, and a Freehold Shop £1,000 were purchased, cheques being drawn for these amounts. Drew a cheque of £30 for office purposes.
- „ 2—Purchased on credit from E. Wilton :
- 1 doz. ladies' coats, 30s. each.
- 2 doz. sports coats, 15s. 6d. each.
- 3 doz. pairs of trousers, 9s. 11d. each.
- Also bought stock £300 from Direct Traders Ltd., subject to 2½ per cent. discount if paid within 7 days.
- „ 4—Paid cash £5 for an advertisement in a local paper, £3 3s. 6d. for paper, string, etc.
- „ 5—Returned to E. Wilton 3 sports coats.
- „ 6—Cash Sales to date £37 2s. 6d. of which £35 was banked. Purchased for cash a job lot of goods for £18 9s. 6d.
- „ 7—Paid by cheques : Direct Traders Ltd., the amount of their account, and E. Wilton £40.
- „ 8—Cash Sales, £45 17s. 6d. Ferguson & Jarvis withdrew in cash £15 and £10 respectively for private expenses. Paid wages, £6 10s., from office cash.

Balance the ledger accounts and extract a Trial Balance as on June 8th, 1984.

No Trading Account or Profit and Loss Account or Balance Sheet is to be prepared.

EXERCISE II

On June 30th, 1984, the following Trial Balance was extracted from the books of L. Pearce, a wholesale dealer. You are required to prepare Trading and Profit and Loss Accounts for the year ended June 30th, 1984, and a Balance Sheet on that date.

Trial Balance—June 30th, 1984

	Dr. £	Cr. £
Stock, July 1st, 1933	2,752	
Debtors and creditors	2,948	1,372
Freehold land and buildings	1,850	
Purchases and sales	8,333	10,297
Carriage on purchases	171	
Bad debts	122	
Repairs to premises	75	
Returns inwards and outwards	247	208

Trial Balance—June 30th, 1934—*continued*

	Dr. £	Cr. £
Fixtures and fittings	228	
Motor vans	280	
Office expenses	347	
Capital, July 1st, 1933		6,350
Bank overdraft		514
Drawings	348	
Salaries and commission	798	
Depreciation :		
Fixtures and fittings	£12	
Motor vans	70	
	82	
Carriage on sales	113	
Cash in hand	47	
	<u>£18,741</u>	<u>£18,741</u>

On June 30th, 1934, the Stock of goods on hand was valued at £2,378.

(*R.S.A. Elem.*, 1934.)

BUSINESS TERMS AND ABBREVIATIONS

Bank Rate.—Briefly stated,—this means the rate per cent. charged by the Bank of England for discounting first-class bills of exchange (that is, bills drawn on firms of recognised financial standing), and is regulated by the directors of the Bank of England at their weekly meeting according to the demand for advances, the quantity of gold in the market, as well as the amount of reserve in the bank.

Current Account.—This is an account which shows the financial relations between the banker and the business man. Most businesses of any size receive and pay out cheques every day, and records of these transactions are entered in a book called the Bank Pass Book. Banks are a great convenience to traders, and they must receive payment for the services they render. This payment is not made in the ordinary way. London Banks, as a rule, require a substantial sum to be deposited, on which no interest is allowed, and in this way they receive payment. Provincial Banks have a different method: they allow interest on the money kept by the customer in his Current Account and charge when the amount deposited falls below a definite figure. Take an example: Arrangements are

made with a Bank to transact business on the Current Account of Thomas Brown & Co., who have branches in thirty different towns in the kingdom, all of whom pay in money to and withdraw money from the Company's Account. The Bank agrees to do all the work connected with these and other receipts and payments on the understanding that the balance of money held by the Bank for this purpose is never less than £1,000. Whenever the balance falls below that amount, which, in the ordinary course, it is likely to do occasionally, the Bank charges Brown & Co. interest on the amount overdrawn. Where the amount maintained at the Bank is very small, a charge is generally made of two guineas a year, or thereabouts, for operating the account. Occasionally you may find this charge referred to in examination papers as a "commission." Again, there is a practice in some Banks of allowing interest on the Current Account and making a definite charge for keeping the account, this charge varying from about one-eighth per cent. to one quarter per cent. of the turnover. By "the turnover" is meant the total of the items paid out of the account.

How Interest is Calculated.—Special interest tables are compiled for use by the Banks, and from these tables it is easy to make the calculation, but for examination purposes the following method should be understood by the student :

Take the number of days on which the balance has remained unchanged and multiply the days by the amount, extending the result into a products column. Where the bank rate has fluctuated during the period under review, the products are divided into periods corresponding with these fluctuations, and a separate total is made for each period. At the close of the half-year each total is charged with its rate of interest.

"In Account With."—There are two methods in use of keeping the Pass Book, and, because there are two ways, students generally experience trouble. The point to ascertain is whether the Bank looks at the matter from the customer's point of view or from their own point of view when arranging the account. Looked at from the customer's point of view, the Bank arranges the account so that it agrees with the customer's own Cash Book, thus :

The Progress Bank, Ltd.,

in account with

Matthew Clarke

Dr.			Matthew Clarke						Cr.		
1924			£	s.	d.	1924			£	s.	d.
Jan.	1	To Balance..	100	10	6	Jan.	3	By Self ..	20	-	-
"	10	" Cash ..	40	-	-						

When a Bank arranges an account in this way, it debits itself with the money received and makes credit entries for amounts paid out.

In the second method, the heading is arranged according to the point of view of the Bank, and reproduces the customer's account as it appears in the ledger of the Bank, thus :

Matthew Clarke

in account with

The Progress Bank, Ltd.

Dr.			The Progress Bank, Ltd.						Cr.		
1924			£	s.	d.	1924		£	s.	d.	
Jan. 3	To Self ..		20	-	-	Jan. 1	By Balance..	100	10	6	
						" 10	" Cash ..	40	-	-	

CHAPTER IX

BILLS OF EXCHANGE

A **BILL OF EXCHANGE** is defined by the Act of 1882 as
“an unconditional order in writing, addressed by one person to another, signed by the person giving it [drawer], requiring the person to whom it is addressed [the drawee] to pay on demand, or at a fixed or determinable future time, a sum certain in money, to or to the order of a specified person, or to bearer” [the payee].

Any instrument which does not fulfil all these conditions is not a bill of exchange. When an Act of Parliament defines a specific thing, the definition given is the only one that can be recognised. It is for this reason that you are advised to memorise it, although a full explanation of its terms cannot suitably be given at this stage. Bills of Exchange have been used for centuries. They considerably facilitate credit transactions, and play an important part in the credit system of this and other countries.

Kinds of Bills

There are two—inland and foreign. Inland bills are those which are drawn and payable within the British Isles or drawn within the British Isles upon some person resident therein.

The British Isles, for the purposes of this Act, include the Channel Islands and the Isle of Man.

Any other bill is a foreign bill.

Chief Advantages of a Bill of Exchange

From the Creditor's Point of View

- (1) It is legal evidence of the existence of debt. The creditor can sue on the bill itself.
- (2) It is a negotiable instrument—that is, it can be passed from hand to hand in settlement of debts.
- (3) It fixes the date of payment.

- (4) If the debtor who accepts the bill is solvent and of good commercial reputation, cash can be obtained for the bill from the Bank, a small charge being made by the Bank or a bill broker for discounting. This is one of the greatest advantages, because it has the effect of increasing the working capital.

From the Debtor's Point of View


- (1) Goods can be bought in this way at a time when the market price is favourable and ready money is not available. These goods can be sold for cash in time to enable the debtor to be "in funds" when the term of the bill has expired.

From the Banker or Bill Broker's Point of View

- (1) The creditor, who is the drawer of the bill, undertakes to pay the amount of the bill to any holder if the money is not forthcoming from the acceptor.
- (2) The payee must endorse the bill, that is write his name on the back of the document, before he can transfer it to anyone else. He is at liberty to transfer the bill to anyone else. He is at liberty to transfer the bill to anyone he may care to name, provided the person so named endorses in his turn and as a consequence incurs similar liability.
- (3) The banker or bill broker has therefore ample security that the bill will be paid at maturity, and an easy remedy in case of default.

Form

The Act does not lay down any special form in which a bill should be drawn. The specimen shown below is in the form generally used.

	No. 247 <i>£</i> 216 —	17th February 1992
	<i>Thirty days after date pay to our Order</i>	
	<i>the sum of Two hundred and sixteen</i>	
	<i>pounds</i>	
	<i>To Austin French, Esq.</i>	
	<i>1314, London Road,</i>	<i>James Watson, Ltd.</i>
	<i>Nottingham.</i>	<i>A. Watson Secretary.</i>

Capital paid up
 Bank, Nottingham
 Austin French

Parties to a Bill

There are four parties to a bill, Drawer, Drawee, Acceptor, and Payee. Do not confuse parties and persons, as the number of persons to a bill is usually two. In the example given, James Watson Ltd. is the Drawer and also the Payee. A Drawer of a bill is the person who writes out the bill, and the Payee is the person to whom the bill is made payable. Austin French is both Drawee and Acceptor, the bill having been drawn on him, and he has indicated his acceptance of its terms by writing across the face of the bill the word "Accepted" and his signature. Prior to acceptance a bill is frequently referred to as the draft of the Drawer. For book-keeping purposes bills are classified as Payable or Receivable. If we again take the example given, this bill would appear in the books of James Watson Ltd. as a bill receivable, and in the books of Austin French as a bill payable. Austin French in his acceptance has stated that payment will be made by the Midland Bank, Nottingham. If he had merely written the word "Accepted" and his signature, the bill would then be payable at 1814 London Road, Nottingham. The bill being for over £200 and not more than £300 bears a 8/- ad valorem (according to value) stamp.

Due Date

The bill becomes due on March 21st, thirty days after February 17th, with three days of grace added. "Months" are always read as calendar months, and when it is intended that no days of grace should be allowed, the word "fixed" should be used, as "pay to my order on May 17th fixed." No days of grace are allowed on bills payable "at sight" or "on demand." If the last day of grace is a Sunday, Good Friday, or Christmas Day, or "a public fast or thanksgiving day appointed by Royal Proclamation," the bill is payable on the preceding business day. When, by allowing the statutory three days, the last would fall on a bank holiday, or when a second day is a bank holiday and the third a Sunday, the bill is payable on the succeeding business day.

Stamp Duties

The stamp duties payable on Inland bills of exchange are as follows :

Payable on demand, or within three days after date or sight, for any amount 2

All others :

When the amount does not exceed £10 2
 " " exceeds £10 but does not exceed £25 3
 " " " £25 " " " £50 6
 " " " £50 " " " £75 9
 " " " £75 " " " £100 1 -

When the amount is in excess of £100, 1/- is charged for the first hundred, and an additional 1/- for each additional hundred and every fractional part of £100. A bill not payable on demand or within three days after date or sight for £620 requires a 7/- stamp.

Note carefully also that an impressed stamp is necessary where the duty imposed is more than 2d. If any person deals with a bill which has not been properly stamped, the penalty is £10.

How Bill Transactions are Recorded

Bill transactions are recorded in two special journals called **Bill Books**. Examples appear on page 122.

Alternative Form of Bill Book

As an alternative to the forms given on page 122, the following shortened form of **Bill Book** will be found suitable for the purpose of working most exercises.

Bills Receivable Book

Date.	From whom Received.	Term.	When Due.	LF	Amount.		
1935					£	s.	d.
Oct. 8	James Smith	1 month	Nov. 11	L	100	-	-
" 20	Robert White	3 months	Jan. 23	L	156	-	-
" 27	Richard Green	2 months	Dec. 30	L	212	8	6
	Bills Receivable A/c		Dr.	L	468	8	6

Posting

Each bill is posted to the credit of the account of the person from whom it was received. The total of the **Bills Receivable Book** is debited to the **Bills Receivable Account**.

Bills Receivable Book

Date.	No.	From whom received.	Drawer.	Acceptor.	Where payable.	Term.	Due.	Fol.	£	s.	d.	Remarks.
1924 Jan. 2	6	N. Carter Bros.	Selves	N. Carter Bros.	— Bank	1 month	1924 Feb. 5	8	300	—	—	Discounted at Bank, 3/1/24.

Posting.—This book is posted by crediting the personal account of the acceptor (N. Carter Bros.) with the total amount of £300 and debiting the Bills Receivable A/c, £300. Generally there would be a number of items in the Bills Receivable Book, and then it would not be necessary to debit the Bills Receivable A/c with the individual items but with the total amount. The accounts of the acceptors would be credited separately. In other words, the process is similar to that of posting a Purchases Book.

Bills Payable Book

Date.	No.	To whom given.	Drawer.	Where payable.	Term.	Due.	Fol.	£	s.	d.	Remarks.
1924 Feb. 6	1	C. Morton & Sons	C. Morton & Sons	— Bank	2 months	1924 April 9	2	70	—	—	

Posting.—The same process as explained above is put into operation, but debiting and crediting are reversed, the total amount being credited to the Bills Payable A/c and the personal accounts of the drawers are debited. The routine of posting is practically the same as posting the Sales Book.

BILLS OF EXCHANGE

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<i>Dr.</i>		James Smith				<i>Cr.</i>		
		1935 Oct. 8	By Bill Receivable	BRB	£ 100	s. -	d. -	
<i>Dr.</i>		Robert White				<i>Cr.</i>		
		1935 Oct. 20	By Bill Receivable	BRB	£ 156	s. -	d. -	
<i>Dr.</i>		Richard Green				<i>Cr.</i>		
		1935 Oct. 27	By Bill Receivable	BRB	£ 212	s. 8	d. 6	
<i>Dr.</i>		Bills Receivable A/c				<i>Cr.</i>		
1935 Oct. 27	To Sundry Debtors	LF	£	s.	d.			
		BRB	468	8	6			

The Bills Payable Book is made out in similar form. Instead of "From whom Received" in the second column, "To whom Given" would be entered. Each bill payable is debited in the appropriate personal account, and the total of the Bills Payable Book is credited in the Bills Payable Account in the Ledger.

Journalising Bills

If Bill Books are not kept, it will be necessary to enter each bill, whether receivable or payable, in the Journal. If this is done, the records in the personal accounts will be the same as those made from Bill Books, but in the Bills Receivable Account and the Bills Payable Account, each bill will be entered separately. The entries and postings of the previous example would be as follows: N.B.—Personal accounts are omitted as these are unchanged.

Journal				<i>Dr.</i>			<i>Cr.</i>		
1935			L.F.	£	s.	d.	£	s.	d.
Oct. 8	Bills Receivable A/c	<i>Dr.</i>		100	-	-			
	To James Smith						100	-	-
	(J. Smith's acceptance at 1 month received.)								
.. 20	Bills Receivable A/c	<i>Dr.</i>		156	-	-			
	To Robert White						156	-	-
	(Robert White's acceptance at 3 months received.)								
.. 27	Bills Receivable A/c	<i>Dr.</i>		212	8	6			
	To Richard Green						212	8	6
	(Richard Green's acceptance at 2 months received.)								



<i>Dr.</i>		Bills Receivable A/c			<i>Cr.</i>	
			£	s.	d.	
1935						
Oct. 8	To James Smith (1 month)	J	100	-	-	
" 20	" Robert White (3 months)	J	156	-	-	
" 27	" Richard Green (2 months)	J	212	8	6	

PROMISSORY NOTES

A promissory note is defined in the Bills of Exchange Act, 1882, as :

An unconditional promise in writing made by one person to another, signed by the maker, engaging to pay, on demand or at a fixed or determinable future time, a sum certain in money to, or to the order of, a specified person or to bearer.

Form.—No special form is laid down in the Act, but the following shows a specimen in general use :

		<i>£</i> 314 ———	<i>Stoke-on-Trent</i> <i>3rd February 1924</i>
	<i>Sixty days after date I promise to pay</i>		
	<i>to Sir John Hamer</i>		
	<i>or Order the sum of Three hundred and fourteen pounds</i>		
		<i>R J A Smith.</i>	

Parties.—There are two—the maker and the payee.

The maker is the debtor, who prepares the note. In the specimen shown R. J. A. Smith is the maker.

The payee (in the example given—Sir John Hamer) is the creditor, the person to whom the money is owing.

Where Promissory Notes Differ from Bills of Exchange

- A bill requires acceptance.
- Promissory notes are always drawn singly—never in sets.

- (c) A bill is drawn by the creditor—a promissory note by the debtor.
- (d) Foreign notes need not be protested.
- (e) A note payable “at sight” or “on demand” requires to be stamped according to value. A bill “on demand” or “at sight” requires only a twopenny stamp.

The maker of a note is deemed by the Act to be the same as the acceptor of a bill, and the first endorser of a note is looked upon as equivalent to the drawer of an accepted bill payable to drawer's order.

EXERCISE 55

Enter the following bill transactions in the Bill Books, post to the Ledger and extract Trial Balances.

1935

- Oct. 1—A. Brown accepted my draft at 2 months for £346.
- „ 3—D. Williams sent me his promissory note at 1 month for £150.
- „ 15—J. Roberts sent me his acceptance at 3 months for £246 15s.
- „ 16—Drew on A. Keen at 1 month for £76 12s. 8d.
- „ 23—D. Williams accepted my draft at 3 months for £297 12s.
- „ 31—A. Kerr sent me his promissory note at 2 months for £90.

EXERCISE 56

1935

- Oct. 7—Accepted K. Ryan's draft at 3 months for £157 8s. 4d.
- „ 16—Sent D. Dunn my promissory note at 1 month for £60.
- „ 15—Gave L. Owen my acceptance at 2 months for £170 13s. 1d.
- „ 24—Gave D. Probert my promissory note at 2 months for £96.
- „ 25—Accepted D. Dunn's draft at 3 months for £123 6s.
- „ 29—Sent K. Ryan promissory note at 1 month for £83 15s.

EXERCISE 57

1935

- Oct. 3—K. Wright accepted my draft at 1 month for £326 12s. 6d.
- „ 11—Sent to D. Davis my promissory note at 2 months for £135.
- „ 24—Accepted J. Regan's draft at 2 months for £187 17s. 5d.
- „ 24—Drew on J. Barrett at 2 months for £189 15s. 4d.
- „ 25—Received K. Wright's promissory note at 3 months for £212.
- „ 29—Accepted D. Wilson's draft at 3 months for £167 10s.
- „ 31—Sent D. Davis my acceptance at 3 months for £120.

PAYMENT OF BILLS OF EXCHANGE

The receipt of bills receivable and the giving of bills payable are preliminary actions to cash settlements when the bills fall

due for payment. Money will be received for those bills held, and payments made in respect of bills accepted. When payment of a bill receivable is received, the Cash Book is debited and the Bills Receivable Account credited. Bills Payable met are entered on the credit side of the Cash Book, and posted to the debit side of the Bills Payable Account. E.g.:

1935

Oct. 1—L. Brant bought goods £100 and gave me his acceptance at 1 month in settlement. On November 4th this bill was paid.

On October 1st £100 is entered in the Sales Book and the B/E for the same amount recorded in the Bills Receivable Book. On November 4th £100 is debited in the Cash Book "To Bills Receivable A/c." The Ledger Accounts are as follows:

Dr.					L. Bryant's A/c					Cr.				
1935			£	s.	d.	1935			£	s.	d.			
Oct. 1	To Sales	..	SB	100	-	Oct. 1	By Bill Receivable	B	100	-	-			

Dr.					Bills Receivable A/c					Cr.				
1935			£	s.	d.	1935			£	s.	d.			
Oct. 1	To L. Bryant	..	B	100	-	Nov. 4	By Cash	..	CB	100	-			

EXERCISE 58

The financial position of R. Dennis on October 1st, 1935, was as follows: Creditors: J. Smith, £128 7s. 9d.; S. Noel, £96 2s. 4d.; F. Farr, £175 18s. 2d. Debtors: R. Brown, £91 12s. 1d.; L. White, £124 8s. 2d.; K. Black, £72 1s. 11d.; S. Stone, £143 6s. 7d.; Cash in hand, £26 1s. 5d.; Cash at Bank, £479 2s. 8d.; Furniture and Fittings, £160; Stock in Trade, £1,749 10s.; Bills Receivable, £460; Bills Payable, £395. Open the Ledger Accounts necessary to record the above particulars and post thereto, through the proper subsidiary books the following transactions: make out Trial Balance.

1935

Oct. 1—Sold goods to L. White, £87 2s. 8d.

Bank paid Bill Payable, £195.

„ 5—Bought goods of S. Noel, £49 3s. 10d.

Bill Receivable paid into Bank, £260.

Received from R. Brown his acceptance at 3 months for £91 12s. 1d.

1935

- Oct. 10—Cash sales, £46 1s. 4d.
 Accepted J. Smith's draft at 2 months for £123 7s. 9d.
 Bank paid Bill Payable, £200.
 L. White sent me his promissory note at 2 months for £100.
 „ 12—Sold goods to K. Black, £113 6s. 5d.
 Sent S. Noel promissory note at 1 month for £100.
 „ 17—Bought goods of F. Farr, £212 6s. 2d.
 „ 23—Bill Receivable paid into bank, £200.
 Cash sales, £39 4s. 5d.
 „ 28—Sold goods to R. Brown, £82 4s. 1d.
 „ 31—Accepted F. Farr's draft at 3 months for £200.

EXERCISE 59

L. Pirrie is in business as a rose grower. On January 1st, 1924, his financial position was as follows: cash at Bank, £501 18s. 7d.; garden tools, etc., £40; cash in hand, £10 12s. 8d.; stock of rose trees, etc., £329 17s. Creditors: P. Noel, £72 8s. 4d.; S. Gold, £17 4s. 10d. Debtors: W. A. Richardson, £8 5s. 6d.; D. P. Roberts, £16 0s. 10d. Bill payable (J. B. Clark), £50, due January 5th, 1924; bill receivable (M. Morse), £25, due January 12th, 1924.

You are required to open the Ledger accounts necessary to record the above particulars and to post, through the proper subsidiary books, the following transactions:

1924

- Jan. 1—Drew, and cashed, cheque for £40, for office cash.
 „ 2—Sold on credit, to S. K. Rindge, 14 doz. *Rugosa* stems at 3/9 per doz., less 15 per cent. trade discount, and 2 cwt. basic slag at 9/6 per cwt.
 „ 4—Purchased, on credit, from Q. Alexander & Sons, 5 tons "Sterole," at £13 10s. per ton, less 10 per cent. trade discount; and 2½ tons bone meal at £9 2s. 6d. per ton, less 10 per cent. trade discount.
 „ 5—Bill payable, due this day, was duly met by Bankers.
 „ 6—Sold, for cash, and paid into office cash, 14 standard rose trees, at 4/6 each.
 „ 7—Paid, in cash, wages, £8 7s. 6d.; railway carriage, £4 2s. 8d.; National Health Insurance, 2/4.
 „ 10—Sold, on credit, to W. A. Richardson, 12 bush roses at 1/6 each, 7 ditto at 3/6 each, and 2 ditto at 7/6 each.
 „ 12—Bill receivable, due this day, was duly paid to Bank.
 „ 14—W. A. Richardson returned, as damaged, 2 bush roses, sold to him on the 10th instant, at 1/6 each.
 „ 15—Paid, in cash, wages, £10 2s. 7d.; National Health Insurance, 2/8; straw and canvas, £3 7s. 4d.

1924

- Jan. 17—Paid P. Noel, by cheque, the amount of his account, less 5 per cent. cash discount.
- „ 19—W. A. Richardson paid the amount due from him, less 5 per cent. cash discount.
- „ 21—Sold, for cash, and paid into office cash, 2 bush roses in pots ("Golden Star") at 15/- each, 5 lb. bone meal at 9d. per lb. and 1½ cwt. Tonk's patent manure at 32/- per cwt.
- „ 23—Bought, and paid for by cheque, sundry tools, viz.: 5 spades at 7/6 each, 4 forks at 6/6 each, and 3 pairs pruners at 5/3 each.
- „ 24—L. Pirrie drew, by cheque, £50 for private purposes.
- „ 24—Paid, in cash, wages, £11 9s. 6d.; National Health Insurance 3/-.

Balance the Ledger and Cash Book, as on January 24th, 1924, and extract a Trial Balance.

N.B.—No Profit and Loss Account or Balance Sheet is to be prepared.

(*R.S.A., Stage I., 1924.*)

EXERCISE 59A

1. Explain: Stock, Shares, Debentures.
2. Explain: Bank Rate, Documentary Drafts, Floating Assets.
3. T. Wyle and R. Greer are in partnership. The capital is held as follows: Wyle, two-thirds; Greer, one-third. In addition to the accounts necessary to record the above particulars, the following balances stood in the books of the firm as on January 1st, 1935.

Cash at Bank, £1,786 12s. 4d.; Petty Cash, £16 8s. 9d.; Stock in Trade, £2,976 18s. 2d.; Bills Receivable (J. King, due January 3rd, 1935), £80; Furniture and Fittings, £163 12s. 5d.; Bill Payable (D. Anson, due February 3rd, 1935), £120. Sundry Debtors: H. Benn, £72 8s. 4d.; S. Sankey, £88 1s. 7d.; J. King, £121 6s. 5d. Sundry Creditors: R. Rogers, £140; W. Stephens, £78 16s.

You are required to make the accounts necessary to record the above particulars, and to post thereto, through the proper subsidiary books, the following transactions. Receipts are banked daily, and all payments, other than those from Petty Cash, are made by cheque.

Balance the accounts and extract a Trial Balance.

	£	s.	d.
Jan. 1—Sold to J. King 500 coats @ 15/11 each, less trade discount 10%			
Accepted R. Rogers' draft at 3 months for	140	-	-
„ 2—Purchases from J. Bright	119	15	2
Paid J. King's bill to bank.			
Cash sales	43	11	4
Received cheque from S. Sankey in settle- ment of account, less 5% discount.			
„ 3—Sales to S. Sankey	98	17	11
Retired D. Anson's bill less rebate of 5%.			
Received from H. Benn a composition of 10/- in the £. Wrote off the balance as a bad debt.			
„ 4—J. King returned 36 coats not up to standard.			
Sold surplus office equipment for ..	10	-	-
Received S. Sankey's acceptance at 3 months in settlement of account to date.			
„ 5—Purchases from R. Rogers	97	12	9
Sales to J. King	114	2	9
Cash sales	29	7	11
Paid wages	25	-	-
Paid National Health Insurance and Un- employment—Petty Cash	9	4	
„ 7—Received from J. King cheque in settle- ment of account, less 2½% discount.			
Drawings: T. Wyle	20	-	-
R. Greer	10	-	-
„ 8—W. Stephens sold us goods	75	14	3
Paid carriage	11	4	5
Paid sundry expenses—petty cash ..	1	3	2
„ 9—Sales to D. Benson	28	15	2
Sent W. Stephens cheque in settlement of amount due January 1st, less 5% dis- count.			
„ 10—Cash sales	18	17	6
Paid from Petty Cash for:			
Stamps	1	-	-
Cleaning	10	-	
Stationery	7	4	

4. From the following Trial Balance, extracted from the books of Robert Brown, you are requested to prepare Trading and Profit and Loss Accounts for the year ended December 31st, 1984, and a Balance Sheet as on that date.

	Trial Balance			£	s.	d.	£	s.	d.
Capital	17,500	-	-			
Drawings	100	-	-			
Plant and machinery	5,385	6	4			
Furniture and fittings	276	12	-			
Stock in trade, January 1st, 1934	4,378	16	4			
Purchases and Purchases Returns	9,629	11	5	96	2	8
Sales and Sales Returns	179	4	1	28,976	15	10
Manufacturing wages	4,872	5	10			
Manufacturing expenses	1,347	12	2			
Carriage inwards	168	19	3			
Carriage outwards	75	12	10			
Loose tools	1,243	-	-			
Sundry debtors	4,422	5	5			
Sundry creditors				1,287	12	1
Salaries	1,576	13	8			
Factory rates and taxes	347	12	2			
Office rates and taxes	86	9	8			
Freehold works	6,600	-	-			
Factory light and heat	247	18	3			
Office light and heat	76	12	10			
Sundry office expenses	136	15	4			
Goodwill	4,000	-	-			
Discount	37	15	2	133	11	4
Bad debts and bad debts reserve	152	14	1	371	8	1
Cash at Bank	2,975	16	2			
Cash in hand	47	12	-			
				£48,365	10	-	£48,365	10	-

When preparing these accounts, the following must be taken into consideration.

(a) Depreciation is to be written off :

- (1) Freehold works, $2\frac{1}{2}\%$.
- Plant and machinery, 10%.
- Furniture and fittings, 5%.

(b) Stock on hand December 31st, 1934, was valued at £3,875 14s. 2d. Loose tools on this same date were valued at £1,185 16s.

(c) A Reserve of 5% of Sundry Debtors is to be made for bad debts.

(d) Wages unpaid, £47 2s. 9d. Factory Rates £62 8s. 4d. and Office Rates, £17 5s. prepaid.

(N.G.A. Inter., 1935.)

What is meant by Acceptance ?

The person to whom the draft is addressed signifies his willingness to obey the order of the drawer by writing the word "accepted" across the face of the document and placing his signature underneath. According to the Act, an acceptance is invalid unless it complies with the following conditions :

- (1) It must be written on the bill and signed by the drawee.
The mere signature of the drawee without any additional words is sufficient.
- (2) It must not express that the drawee will perform his promise by any other means than the payment of money.

Kinds of Acceptance

There are two classes :

- (1) General.
- (2) Qualified.

General, as the name implies, is an agreement to fulfil the order without qualifications.

A *qualified* acceptance makes a variation of the form in which the bill is drawn. It may be :

- (a) *Partial*—agreement to pay part only of the amount mentioned in the bill ;
- (b) *Qualified as to time*—where an alteration is made in the term, say from three to six months ;
- (c) *Conditional*—where the acceptor says he will pay when a certain condition has been fulfilled ;
- (d) *Local*—agreement to pay at a specified place, and there only.

When an acceptance is qualified, the holder may refuse to take it, and may treat the bill as dishonoured by non-acceptance.

Endorsement

If the payee simply signed his name on the back of the bill and discounted it, this is termed a "blank or general endorsement" ; if he transfers it to another trader, thus "pay James Martin or Order, A. Brown," this would be a "special endorsement." If the endorsement read as follows :

Pay James Martin only

A. Brown,

this would be termed a "restrictive endorsement."

Sometimes it happens that the back of a bill is covered with successive endorsements, and it becomes necessary to gum a

slip of paper, called an *allonge*, to provide facilities for further signatures. When this is done, the first party to endorse should write part of the endorsement on the bill and part on the *allonge*.

Dishonoured Bills

A bill is said to be dishonoured when the acceptor fails to pay it when due. When this occurs, the bill may be handed to an official called a "Notary Public." This official re-presents it either to the acceptor, or to the banker, when it is payable at a bank, the object being to record officially the fact of non-payment. The notary then initials the bill, attaches a note giving his charges, and the answer given by the banker or acceptor.

For the purpose of evidence of due presentation, most inland bills are treated in this way. Noting is not a legal necessity.

Material Alterations

When a bill is materially altered without the consent of all parties liable on the bill, these parties are discharged from liability. Alteration of the amount, the term of the bill, the place of payment, and the date of the bill are material alterations.

When a bill is accepted payable generally (i.e. at no particular place), the addition of a place of payment without the acceptor's consent is also a material alteration.

Lost Bills

When a bill is lost before it is overdue, the holder of the bill can demand another bill of the same tenor on giving security to the drawer, if required, to indemnify him for any loss.

FOREIGN BILLS

Any bill which does not come within the scope of the definition of an inland bill is a foreign bill. As a rule, foreign bills are drawn in three sets, or "*vias*," as they are called, and each *via* expressly states that it is to be paid *only if the other two are unpaid*. The reason for drawing out three forms is to avoid delay in the event of loss or miscarriage, and the first and second forms are sent separately by different mail steamers, the third being retained for use in event of the other two being lost. The acceptance is usually written on the first copy, but

it may appear on any copy so long as one copy only in a set is used for the purpose. Any person accepting or endorsing on more than one copy will be liable on each as if they were separate bills.

When a foreign bill is drawn in one copy only, the term "sola draft" or "sola of exchange" on the bill indicates that the bill has not been drawn in a set.

Usance.—This term means the usual time of payment between two places. For example, the usance between London and New York is sixty days after sight—the time being regulated by the nature of the transactions, the distance apart, and the facilities for communication.

Examples of Foreign Bills

Drawn in United Kingdom and payable abroad

No 1019

London, 27th April 1924 For £156-10-0.

At sixty D/s Pay this first of Exchange
second and third of the same tenor and date unpaid to the Order
of Messrs Jenkins and Marshall, Ltd.
One hundred and fifty six pounds ten shillings.

Value received _____ which place to Account
To Redmayne Mues Limited The Bolton Tool Co., Ltd.
East Street, Cape Town, S. Africa Mark Hughes, Secretary

Drawn abroad and payable in United Kingdom

No 10276

Colombo, 16th Dec. 1923 For £403 0-9.

At three months after sight Pay this first of Exchange
(second and third of the same tenor and date unpaid) to the Order
of ourselves
Four hundred and three pounds and ninepence
against documents.

Value received _____ which place to Account
To Messrs Richards & Crow, Ltd. Lefèvre & Co.
Eastcheap, London, E.C. Jules Lefèvre.

Days of Grace.—The three days of grace, the legal privilege accorded to inland bills, have practically no application to foreign bills payable outside the United Kingdom. Foreign bills payable within the United Kingdom, however, participate in this three days' advantage.

Acceptance for Honour Supra Protest.—When a bill is dishonoured, the holder in ordinary circumstances has a legal right of recourse against all the preceding signatories. It often happens that the drawer of the bill or one of the endorsers takes precautions against the possibility of the bill being returned to him with the full responsibility of heavy expenses and the discredit of being connected with a dishonoured bill. This safeguard takes the form of placing on the bill a reference to some person, who is not already a party liable on the bill, to whom application for acceptance or payment should be made in the event of dishonour by the drawee. The person to whom such reference is made is called a "referee in case of need." The acceptance or payment by the referee is said to be for honour, because he intervenes, with the consent of the holder of the bill, to protect the financial honour and integrity of the drawer of the bill, or any party thereto. In the event of the acceptor for honour omitting to state for whose honour he accepts, it is assumed to be for the honour of the drawer. If acceptance is for the honour of, say, the fourth endorsee, the acceptor for honour is liable to subsequent, but not to previous, endorsees. The acceptor for honour, supra protest, must appear personally before a Notary Public and make a declaration, before witnesses, that he accepts the protested bill for the honour of whomsoever it may be, and he must subscribe the bill with his own hand.

Acceptances of Foreign Bills.—It would be very awkward to send drafts for acceptance and return to a far-off country, and as a matter of fact this is not done. "A," who draws the bill, may have a customer in the foreign country who owes him money and also a creditor to whom a remittance is due. When this state of affairs exists, the simple way is to draw a bill on the debtor making it payable to the creditor, and instructing the creditor to place the amount to the credit of "A." If there is not a convenient creditor, "A" will draw a bill making himself the payee. He will then endorse the bill and discount it with his banker.

Concerning Stamp Duties.—Where bills are drawn in the

United Kingdom and are payable abroad, and where they are drawn abroad and payable in the United Kingdom, the stamp duty is the same as an inland bill. Where bills are drawn abroad and are expressed to be payable outside the United Kingdom, they are liable to duty when negotiated in this country. They are stamped as follows :

For amounts of £50 and under, same as inland bills.

For amounts over £50 and under £100, a duty of 6*d.*

Over £100, a charge of 6*d.* for every hundred pounds or fraction of one hundred.

If the amount of the bill is payable on demand, or with three days after date or sight, an ordinary stamp may be used ; but the special adhesive foreign stamp is required in all other cases, and the party who first deals with the bill must affix and cancel the stamp.

Bills which are drawn in the Channel Islands or in the Isle of Man and negotiated here are treated as foreign bills so far as stamp duties are concerned.

Noting and Protest.—If a foreign bill becomes dishonoured by non-acceptance, it must go through the process of “ protesting for non-acceptance,” and, further, when it is dishonoured for non-payment, it must be duly protested again. If this formality is not carried through, the drawer and endorsers are discharged, for in many foreign courts noting and protest are essential parts of the evidence of dishonour.

How to Record Discounted Bills

A bill of exchange may be discounted at a bank or by a Discount House. The rate of discount charged is determined by the current discount rate, and the financial standing of the parties to the bill. Although termed discount, it is calculated on a time basis, the period of computation being the unexpired portion of the life of the bill. For example, if a three months' bill for £400 is discounted two months before it falls due for payment, and the rate of discount charged is 5%, the discount would be £3 6*s.* 8*d.* 5% of £400 is £20, and this sum divided by 6, as the bill has 2 months to run, is £3 6*s.* 8*d.* The amount received in cash for the bill is £396 18*s.* 4*d.*

Banks discount the bills of their customers, crediting them with the full value of the bills, and debiting them with the discount. Discount Houses pay the discounter the net pro-

Example :

Example :

	£	s.	d.	£	s.	d.
Discounting Bill Charges A/c Dr.	2	-	-	2	-	-
To Bills Rec. A/c						
("Y's" bill discounted at 4% with the London Discount Co.)						

<i>Dr.</i>				Bills Receivable A/c				<i>Cr.</i>			
1935	To "Y's" Bill ..	£	s.	d.	1935	By Bank	£	s.	d.		
		200	-	-		.. Discount charges	198	-	-		
							2				

<i>Dr.</i>				Discounting Bill Charges A/c				<i>Cr.</i>			
1935	To "Y's" Bill Rec.	£	s.	d.	1935		£	s.	d.		
		2	-	-							

Retirement of Bills Payable

The Acceptor may wish to pay a bill he has accepted before it falls due, thereby securing a rebate or discount. This rebate is calculated in the same way as discount. If, as is customary, payment is made through a bank, credit bank with the net amount paid, and enter the rebate in the discount column on the credit side of the Cash Book. Both amounts are posted to the debit of the Bills Payable Account.

Transfers of Bills Receivable

The holder of a bill may before its due date pass it on to a creditor in payment of a debt. When such a transfer is made, a journal entry is necessary. Credit Bills Receivable Account and debit the Creditor's account.

EXERCISE 60

The following bill transactions occur in J. Wilson's books :

1932

- Jan. 2—Drew on A. Brook bill at one month for £310. .
 „ 4—C. Crane accepted my draft at two months for £205.
 „ 5—Discounted Brook's bill at the bank for £304.
 „ 6—Accepted D. Sharp's draft at one month for £256.
 „ 10—Endorsed Crane's bill and sent it to Sharp.
 „ 12—Sent promissory note at one month to J. White for £110.
 „ 15—J. Smythe sent me his acceptance at one month for £98.
 „ 20—Received from S. Crane D. Dove's acceptance for £139.
 „ 24—Retired under rebate bill for £316. Rebate £4.
 „ 30—J. Morris gave me his p/n at two months for £156.

Give the entries necessary to record the above transactions.

EXERCISE 61

The following were the Assets and Liabilities of J. Whyte & Co., on November 1st, 1935 : Cash in hand, £14 10s. 6d. ;

Cash at Bank, £1,868 12s. 4d.; Stock in Trade, £3,197 5s.; Bills Receivable, No. 1, £840, No. 2, £216, No. 6, £148 10s.; Bills Payable, £156 and £210. Creditors: A. Lines, £46 10s., B. Byers, £96 2s.

Enter the above and the following transactions into suitable books, post to the Ledger and extract Trial Balance.

		£	s.	d.
Nov. 1—	Sold goods to A. Green	76	12	5
	B/R No. 1 paid into Bank.			
	Bill payable paid by Bank	156	—	—
" 4—	Bought goods of A. Lines	231	19	2
	Received A. Green's acceptance at 3 months for	76	12	5
	Bought goods of A. Allen	164	13	5
" 5—	B/R No. 2 discounted at Bank. Discount charges	4	2	4
	Sold goods to A. Berry	134	7	6
" 6—	Bank retired B/P £210. Rebate	5	2	—
	Accepted A. Lines' draft at 1 month for	200	—	—
" 7—	Bought goods of J. Smith & Co.	210	10	—
	B/R No. 3 discounted with X Discount Co. charges	3	1	6
	Received P/N from A. Berry at 2 months for	100	—	—
" 9—	Sold goods to A. Green	131	15	2
	Sent A. Allen my acceptance at 2 months in settlement of account.			

DOCUMENTARY BILLS

Both in this country and abroad, foreign bills are frequently negotiated *before* acceptance. To make the point clear, assume that a trader in this country secures an order from a foreign merchant. The trader draws a bill at sight on his foreign customer for the full amount of the invoice, ships the goods, and sends the bill ("with shipping documents attached") to his banker.

The documents attached (duly endorsed to the banker) will be the bills of lading, the invoice, and the policy of insurance. In addition, a letter of hypothecation is included, giving the banker authority to sell the goods to recoup himself should the foreign customer fail to honour the draft.

When the banker receives this security, he discounts the drafts and forwards the documents to his branch or correspondent in the foreign country, giving instructions to the branch or correspondent to retain possession of the Bill of Lading until the draft is paid.

Not all foreign drafts are payable at sight, but when payment is fixed at a later time the bill of lading will not be handed over unless clear instructions to that effect are given, when the agent will part with the bill of lading in return for an acceptance of the drafts. The banker in any case will see that he has proper security.

Do not assume that foreign bills must always have documents attached. A merchant abroad may draw upon, say, Gibson & Maitland, a London firm of good financial standing, at sixty days after sight, "for value received." The foreign merchant may sell the draft on the spot to a bill broker, who may again sell the draft to someone at a profit. Eventually the draft reaches Gibson & Maitland, who accept it, but before the time for payment is reached the draft may have passed through various endorsers. When the bill has matured, should it be dishonoured, the holder must at once have it noted and protested, as already explained, in order that recourse may be had to the drawer and endorsers.

ACCOMMODATION BILLS

These are bills put into circulation in order to raise money by the process of discounting. They differ from ordinary trade bills particularly on two points :

- (1) No value is received for the bill.
- (2) The drawer and acceptor are not liable to each other, but only to third or subsequent parties who are "holders for value."

No. 2 must be qualified. If the parties to an accommodation bill divide the proceeds after discounting, or if they have drawn two bills for the same amount (one against the other), they would be liable to each other.

These fictitious bills (they are also called "kites" and "windmills") are drawn in the same form as trade bills. The party who discounts the bill engages to provide money for payment at maturity.

How to Record Dishonour of Bills

A bill when presented to the acceptor for payment may be dishonoured. If the bill has not been circulated, presentation for payment will have been made by the drawer. If, however,

the bill has been passed on to someone else, the drawer will be liable to make good the value of the bill to the holder.

Example 1

"A" holds "B's" acceptance of £100. On presentation for payment the bill is dishonoured.

In this case journalise as follows :

Journal		Dr.			Cr.		
		£	s.	d.	£	s.	d.
"B" Dr.		100	-	-			
To Bills Receivable A/c ..					100	-	-
("B's" Bill No. — dishonoured on 1935.)							

Example 2

"A" received from "B" B/R for £200. He paid it into bank and subsequently was informed that the bill had been dishonoured.

When the bill was paid into Bank, Bank was debited and Bills Receivable Account credited. Now that the bill has been dishonoured, Bank must be credited and "B's" indebtedness revived.

Cash Book				Cr.		
		Discount	Cash.	Bank.		
				£	s.	d.
By "B" (Bill Rec. Dish.) ..				200	-	-

Example 3

"A" received from "B" B/R for £300. He endorsed it and passed it on to "C." Later "C" informed him ("A") that the bill had been dishonoured. "C" now looks to "A" for payment.

When "A" passed the bill to "C," an entry was made in his Journal debiting "C" and crediting Bills Receivable, see

below (a). It is now necessary to make an additional Journal entry, see below (b), recording the dishonour.

Journal		Dr.			Cr.		
		£	s.	d.	£	s.	d.
(a)	"C" Dr.	300	—	—			
	To Bills Receivable ..				300	—	—
	("B's" B/R endorsed and passed to "C.")						
(b)	"B" Dr.	300	—	—			
	To "C"				300	—	—
	("B's" B/R endorsed to "C" dishonoured and returned.)						

Example 4

"A" received from "B" B/R for £400. He discounted it with the X Co. for £396. Later the X Co. informed him that the bill had been dishonoured. When the Bill was discounted cash was debited £396, Discounting Charges £4, and Bills Receivable A/c credited £400. It is now necessary to journalise as follows :

Journal		Dr.			Cr.		
		£	s.	d.	£	s.	d.
	"B" Dr.	400	—	—			
	To X Co.				400	—	—

Note.—In all examples if any charges are incurred these are debited to "B," as he is liable to bear any expense connected with the bill. If a new bill is accepted for the debt plus interest, journalise the interest separately and enter the new bill in the usual way.

EXERCISE 62

J. Green's acceptance for £200 held by A. Marlowe is due for payment. Green is unable to pay and offers to accept a new bill at three months' plus interest at 5% per annum. Marlowe accepts this offer. Give the entries which should appear in Marlowe's books.

EXERCISE 63

J. Grant has the following bills :

No. 1.—Accepted by S. Smart for £349.

No. 2.—Accepted by J. Crewe for £126.

No. 8.—Accepted by D. Lowe for £252.

Bill No. 1 was endorsed and sent to A. Cheam. No. 2 was paid into bank. All three bills were dishonoured. Give the entries and Ledger accounts.

EXERCISE 64

A trader's books on January 1st showed the following balances : Debtors—H. Jones, £200 ; L. Fox & Co., £300 ; Bank, £550. Creditors—E. Brown, £150 ; E. Jackson, £200 ; capital

He had the following transactions :

	£	s.	d.
Jan. 1—Received 2 months' bill from H. Jones ..	200	-	-
„ 3—Discounted Jones's bill with bankers, and paid discount charge thereon	2	-	-
„ 6—Received 3 m/d from L. Fox & Co. ..	300	-	-
„ 20—Sent (i.e. accepted) a 2 m/d to E. Brown ..	150	-	-
„ 31—Discounted Fox & Co's bill. Bank discount charge	3	-	-
Feb. 10—Accepted E. Jackson's 3 m/d	200	-	-
Mar. 4—Jones's bill dishonoured	200	-	-
„ 4—Paid charges	-	7	6
„ 5—Received another bill for 1 month from Jones, including above charges and interest £1 12s. 6d.	202	-	-
„ 23—Met E. Brown's bill	150	-	-
April 8—Paid Jones's bill into Bank	202	-	-
May 13—Met E. Jackson's bill	200	-	-

You are required to make the necessary entries, open Ledger A/cs, post thereto, and extract Trial Balance.

EXERCISE 65

On December 11th Smith discounted with Hirst a six months' bill for £105, which he had drawn on October 1st on Rhodes, and received cash £100. When the bill fell due it was dishonoured, but was taken up three days later. Show, by means of Journal entries, how these transactions would be recorded in Smith's books, being careful to insert the correct dates. What was the amount of the stamp duty ?

(National Union of Teachers.)

EXERCISE 66

On March 1st, 1928, Daniel Ellis, of Liverpool, drew a bill on Frederick Green, Manchester, for £599, payable three months after date. Green accepted the bill, making it payable at the County Bank, Manchester. Make out the bill, mark the stamp duty, and show Green's acceptance.

(Union of Lancashire and Cheshire Institutes, 1928.)

EXERCISE 67

For their mutual accommodation X. drew on Y. a bill for £500, which he discounted for £490 cash. X. handed half the proceeds to Y. A few days before the bill fell due for payment X. sent Y. £250 in settlement.

Show the entries recording these transactions in X.'s books.

EXERCISE 68

A.B. accepted a £400 bill drawn by C.D. for the latter's accommodation. The bill was discounted by the X.Y. Discount Co., and C.D. received £395 in cash. A few days before the bill fell due for payment C.D. remitted £400 to A.B., and the latter paid the bill on presentation.

Show the necessary entries in A.B.'s books.

EXERCISE 69

Jones, for the mutual and temporary accommodation of himself and Brown, draws upon the latter a bill of exchange at three months for £600, dated January 1st. Jones discounts this bill immediately at his bankers', the rate of discount being 5%, and hands half the proceeds to Brown.

Brown, for a similar purpose, and at the same time, draws a bill at three months on Jones for £800. This he discounts at his bankers' at 5% and hands half the proceeds to Jones. Brown becomes a bankrupt on March 31st, and a first and final dividend of 5/- in the pound is paid on his estate on June 30th.

Write up Brown's account in Jones's books. Assume, in each case, that one-half of the charge for discounting the bill is chargeable to Brown and one-half to Jones.

(London Chamber of Commerce.)

EXERCISE 70

The Balance Sheet of H. Watson & Co. on January 1st, 1930, showed Liabilities on Acceptance of Nos. 7, 8, and 9 Bills—£1,760 10s.; Sundry Creditors: Hope & Co., £190, Duff & Sons, £308. Assets on the same date consisted of Cash at Bank, £800; Petty Cash, £60; Stock, £2,000; Plant, £2,700; Bills Receivable (Nos. 2 and 3), £410 5s. Debtors: H. Jordan & Co., £40; J. Law, £247.

Open the necessary accounts to record the financial position, and post the following transactions through the proper subsidiary books and extract Trial Balance. All receipts are paid into Bank and all payments (except those of Petty Cash) are made by cheque.

	£	s.	d.
Jan. 2—Bought from R. Whiteley a new engine ..	200	—	—
Accepted a Bill, No. 10, for this amount at one month.			
„ 3—Sold H. Jordan & Co. Goods	410	—	—
Received from them Acceptance drawn on H. Foster for £100 and Cash £340 (Discount allowed, £10)	450	—	—
Paid Trade Expenses out of Petty Cash ..	22	—	—
„ 5—Bought Goods from Duff & Sons ..	175	—	—
Sent to Duff & Sons Bill Receivable, No. 2, in part payment	230	—	—
„ 7—Received cheque from J. Law in full settlement of account	240	—	—
„ 8—Discounted Bill Receivable, No. 3, £180 5s. for	179	—	—
„ 10—Retired Acceptance, No. 10, by cheque for	257	—	—
„ 11—Bill received from H. Jordan & Co. drawn on H. Foster dishonoured	100	—	—
Paid noting charges by cheque	1	—	—
„ 13—H. Jordan & Co. gave new acceptance at one month; Interest charged, £1 ..	102	—	—
„ 17—Renewed Bill Payable, No. 7, drawn by J. Cole, £350; Interest charged, £3 ..	353	—	—
„ 18—Paid Wages by cheque	50	—	—
Paid Trade Expenses out of Petty Cash ..	17	—	—
„ 30—Handed Hope & Co. H. Jordan & Co's acceptance for £102 and cheque for £87 —Discount received £1	190	—	—
Sold Goods to J. Law	490	—	—

EXERCISE 71

1. What are the principal differences between a promissory note and a bill of exchange?

2. How many parties are there to a promissory note ?
3. Is there any difference in treatment in book-keeping of promissory notes and bills of exchange ?
4. Mention the parties to the following note :

£100

Nottingham,
January 30th, 1924.

1/-
Stamp

Three months after date I promise to pay to Mr. F. Marshall or order the sum of £100 for value received.

A. O. WINDER.

5. What is the difference between an inland note and a foreign note ?
6. What points of difference are there between a cheque and a bill of exchange ?

EXERCISE 72

On January 1st, 1936, the following were the assets and liabilities of J. Cook : Cash at Bank, £1,429 12s. 6d. ; Petty Cash, £13 6s. 8d. ; Stock, £1,760 12s. 5d. ; Premises, £2,000 ; Sundry Debtors : A. Allen, £146 12s. ; B. Benson, £37 2s. ; Bills Receivable, No. 64, £250, 67, £312. Sundry Creditors : W. White & Co., £674 18s. 2d. ; Y. Yates, £346 7s. 11d. ; Bills Payable, £800. Enter the above and the following transactions in suitable books, post to the ledger, and extract a Trial Balance.

1936		£	s.	d.
Jan.	1—Bought goods of R. Green & Co.	212	5	1
	Paid Bill Receivable 64 into bank.			
„	2—Sold goods to A. Allen	144	3	2
	Received A. Allen's acceptance at 2			
	months for	250	—	—
	Cash sales paid into bank	38	1	4
„	3—Sold goods to C. Charles	58	12	3
„	4—B/R No. 64 which was received from D. Davies, returned by bank dishonoured.			
	Bank charges	—	6	8
„	6—Retired Bill payable for £800 rebate	6	4	2
	Bought goods of Y. Yates	312	5	8
	Accepted Y. Yates' draft for £340, discount	6	7	11
„	7—Bill Payable met by Bank	200	—	—
	Sold goods to B. Benson	189	3	—
	B. Benson sent his P/N for	100	—	—

1936		£	s.	d.
Jan.	8—B. Benson returned goods	18	10	—
	Bought goods of Y. Yates	315	8	6
	Received B/R at one month from D. Davies for the amount due from him plus interest	2	1	8
„	9—Cash sales, paid into bank	72	12	5
	Drew cheque for Petty Cash	26	13	4
	Discounted B. Benson's P/N at bank for	98	10	—
„	10—Sold goods to C. Charles	120	3	6
	C. Charles endorsed and sent me A. Black's acceptance for	110	12	—
	Petty Cash disbursements: Salaries, £15; Insurance, 12/8; Stamps, £2; Sundries, £3 10s.			

BUSINESS TERMS AND ABBREVIATIONS

Rebate.—An allowance granted to the acceptor of a bill of exchange if he pays before the fixed time. It is generally used to indicate an allowance made for the payment before maturity. This term is often used loosely in the sense of “abatement,” but, strictly speaking, “rebate” means “the return of interest previously paid.” (French, *rebatre* = to beat back.) As a business term it may denote a reduction in price in certain circumstances. For example: a firm may agree to buy a certain number of articles at a stated price on the understanding that if, within a definite period, a larger number is purchased, a “rebate” of so much on each article will be allowed.

Average Due Date.—An equated date on which settlement may be made of amounts due on various dates. You will not readily understand this explanation by merely reading it: write out the following example:

Three sums are due by you to Thomas Russell, as shown below:

Due date.	Amount.
July 1	£50
Aug. 9	275
Sept. 18	225

You agree to settle by one payment on the average date. In order to determine the average date, calculate the number of days in each case from the first day (July 1st) to the date upon which the other sums are due (including

the due date itself), and multiply each amount by the number of days ; thus :

Due date.	Amount.	Days from 1st July.	Product.
July 1	50	0	0
Aug. 9	275	39	10,725
Sept. 18	225	79	17,775
	<hr/> 550	<hr/>	<hr/> 28,500

Now divide the total of the products by the total of the amounts, and the result will represent the number of days between the average due date and the first date.

$$550)28500(52 \text{ approx.}$$

The average due date is therefore 52 days after July 1st ; namely, August 22nd.

A/c.—Acceptance.

Assignment.—A transfer of personal property or right from one person to another. The term “deed of assignment” is used to describe the document by means of which such a transfer is made. The person to whom the property or right is assigned is called the assignee.

Honour.—To fulfil the terms of a contract by payment. This word is extensively used in commerce. The banker who pays money in accordance with the instructions contained in a cheque is said to honour the signature of the person who signs the order for payment.

m/s ; d/s.—Months after sight ; and days after sight. Bills of Exchange are drawn either payable “at sight” or so many days or months after sight.

Ad Valorem.—According to value. Generally used in connection with Customs Duty and Stamps.

Bank Bill.—A bill of exchange accepted or issued by a bank.

Bankers' Cheques.—Cheques drawn by one banker upon another ; used by a bank's customers as a convenient means of transferring money from one place to another, or by bankers for clearing purposes.

Draft.—(a) The money drawn from a bank, or the order which gives a title to draw the money in this way. (b) The first, generally, rough copy of a document. (c) A bill of exchange before it has been accepted. (d) An allowance made by a manufacturer to a retailer for dust and waste by evaporation.

CHAPTER X

MORE ADVANCED NOTES ON BANKING

THE Bill of Exchange Act, 1882, defines a cheque as a bill of exchange drawn on a banker payable on demand.

A cheque is really an order addressed to the banker intimating that the amount mentioned is to be paid on demand to whoever is named on the cheque itself. The person who gives these instructions is the drawer, the banker is the drawee, and the payee is the person who is entitled to demand payment.

Being a bill of exchange payable on demand, the stamp duty is 2*d*.

Cheque books, specially printed and numbered, with impressed stamps, are issued by the banks to their customers on written application, duly signed; but an ordinary piece of paper with an inland revenue stamp affixed and cancelled by the drawer is legally valid.

Cheques may be drawn out payable to bearer; that is to say, to the person who is in possession of the cheque itself. A bearer cheque does not require endorsement. A more common practice is to have the cheques paid to order. Observe that "or order" is part of the printed form. The person to whom the cheque is payable "to order" must endorse it (write his name on the back).

Endorsements.—Endorsements are sometimes made by power of attorney, thus :

per pro (or p.p.) ROBERT GRAHAM,
THOMAS MITCHELL.

Per pro is an abbreviation for per procuration, which means that a deed has been signed by one person enabling another to act as his duly authorised agent when signing a document on his behalf, and signifies that the agent has only a limited authority to sign. The person for whom he signs is called his principal. The principal is not bound by the acts of his agent if the agent exceeds his authority. The deed giving power of attorney is drawn up and signed in the presence of two witnesses. It will be easily understood, therefore, that

bankers are entitled to enquire into the extent of the power given, and may insist on confirmation.

If the payee is an illiterate person who cannot write, his endorsement is made by his drawing a cross, which must be witnessed, thus :

His
H. + SMITHSON
Mark

Witness : J. WILLIAMS,
6, College Road,
West Bromwich.

If a cheque is made out to someone whose Christian name is not given, the name or initial should be included in the endorsement, because a surname is not a signature.

When a cheque is made out to a married lady with her husband's Christian name included, as Mrs. Henry Stephens, the endorsement would be :

MARY STEPHENS,
Wife of HENRY STEPHENS.

Where a cheque has been made out to a single lady who meantime has married, the procedure is as follows :

Cheque made out to	Endorsement :
ELIZABETH WHITE	ELIZABETH BROWN, née E. WHITE.

Where a cheque is made out to two sisters, the Misses Parker, the endorsement would be :

ETHEL PARKER
JOSEPHINE PARKER

Each must sign.

Where a cheque has been made out to Mr. James White, who spells his name Whyte, the endorsement should be :

JAMES WHITE
JAMES WHYTE

Where the payee is the person who draws the cheque—in other words, when the cheque is made out to "Self"—the signature of the drawer is the endorsement.

When the payee is Major Robert Weatherall, the endorsement would be :

ROBERT WEATHERALL, MAJOR,
or simply :

ROBERT WEATHERALL.

A foreign cheque requires to be stamped (2d.) before negotiation in this country.

A banker is supposed to take proper steps to be familiar with the signatures of his customers, and if he pays on a forged cheque, he is liable for the amount; but he is not responsible for a forged endorsement. He cannot be expected to know the signatures of all the people to whom his customers may make cheques payable.

Dishonour.—Unfortunately it sometimes happens that cheques, when presented, are not paid because the banker has not a sufficient sum to the credit of the customer to meet the cheque, or the endorsement may be irregular, the alterations on the cheque may require the drawer's signature, or the cheque itself may be in a mutilated state, and so forth. The cheques are returned with the explanation written on them.

N/S means "Not sufficient (funds)."

N/E „ "No effects."

I/F „ "Insufficient funds."

R/D „ "Refer to drawer."

Effects not cleared. Present again.

Post-dated. This means that the date of the cheque is later than the current date.

Orders not to pay, which means that the cheque has been stopped by the drawer.

Many firms print receipt forms on the back of cheques. Bankers sometimes require an endorsement in addition.

If a cheque is lost, the payee has a right, upon giving security to the drawer, to claim a duplicate cheque. The security is to indemnify the drawer in the event of the lost cheque falling into dishonest hands and being negotiated. The Bank should be specially instructed to pay on the duplicate only.

If cheques are sent through the post, the post office is not responsible in the event of miscarriage. If signed by the payee, he is responsible. The responsibility rests with the party who signs the cheque.

Crossings.—The Bill of Exchange Act, sections 76 to 78, gives the following information about crossed cheques :

By section 76 :

- (1) Where a cheque bears across its face an addition of :
 - (a) The words "and company" or any abbreviation thereof between two parallel transverse lines, either with or without the words "not negotiable" ; or

- (b) Two parallel transverse lines simply, either with or without the words "not negotiable"; that addition constitutes a crossing, and the cheque is crossed generally.
- (2) Where a cheque bears across its face an addition of the name of a banker, either with or without the words "not negotiable," that addition constitutes a crossing, and the cheque is crossed specially and to that banker.

Section 77 states :

- (1) A cheque may be crossed generally or specially by the drawer.
- (2) Where a cheque is uncrossed, the holder may cross it generally or specially.
- (3) Where a cheque is crossed generally, the holder may cross it specially.
- (4) Where a cheque is crossed generally or specially, the holder may add the words "not negotiable."
- (5) Where a cheque is crossed specially, the banker to whom it is crossed may again cross it specially to another banker for collection.
- (6) Where an uncrossed cheque, or a cheque crossed generally, is sent to a banker for collection, he may cross it specially to himself.

A crossing authorised by this Act, according to section 78, is a material part of the cheque, which "it shall not be lawful for any person to obliterate or, except as authorised by this Act, to add to or alter the crossing."

The provisions of the Bill of Exchange Act as to crossed cheques apply also to "any documents issued by any customer, and intended to enable any person to obtain payment from such banker of the sum mentioned in such document."

This has special reference to money orders, postal orders, demand drafts, etc., where collection takes place through a bank.

Reason for Crossing.—The object is to prevent fraud; to make it difficult for anyone who is not entitled to hold the cheque to cash it.

The following are specimens of crossings in common use. They are divided into two sections, general and special, the former meaning that the cheque is payable through a bank only. A special crossing means that the money is payable through the bank named on the cheque.

GENERAL CROSSINGS

A/c Payee Only.	& Co.		
Not Negotiable.	& Co.		
Not Negotiable.			Not Negotiable.
Under Twenty Pounds.	& Co.		
Not Negotiable.			Under Ten Pounds.
A/c Payee Only.	& Co.		

SPECIAL CROSSINGS

Barclays Bank, Ltd.	
Not Negotiable.	
Barclays Bank, Ltd.	
Not Negotiable.	
Barclays Bank, Ltd.	
Under Twenty Pounds.	
Not Negotiable.	
Barclays Bank, Ltd.	
A/c Payee Only.	

Open Cheques and Blank Cheques.—An open cheque is one which is not crossed.

A blank cheque contains the signature of the drawer, but does not mention the amount.

Not Negotiable.—Section 81 of the Bill of Exchange Act states that “Where a person takes a crossed cheque which bears on it the words ‘not negotiable,’ he shall not have and shall not be capable of giving a better title to the cheque than that which the person from whom he took it had.” When the words “not negotiable” are written on a cheque by the drawer or by any holder, they are meant as a warning, “Beware of the transferor.” This is to protect the owner against loss or theft.

Illustration.—For example, Mr. Jones obtains a cheque from Mr. Alexander, either (a) in settlement of a wager, (b) under duress, or (c) fraudulently, and passes it on to Mr. Williams in settlement of legal debt. Then, if the cheque is crossed “Not negotiable,” Mr. Williams cannot compel Mr. Alexander to honour his cheque, as he could otherwise have done, in spite of Mr. Jones’s defect of title.

POINTS TO BE NOTED CAREFULLY

While a cheque will generally contain the current date, it would not be invalid because no date appeared, or if the date for payment is prior to the current date, called ante-dated ; or post-dated at a time later than the current time, or if the date given should be a Sunday. A cheque which does not contain any date would be returned by the banker marked “incomplete.” Post-dated cheques would not be cashed until they reached maturity, and cheques dated for a Sunday are payable on the business day following.

The amount must be stated clearly both in words and figures, as shown on the form. Where the words and figures differ, the banker returns the cheque for correction, marking it “amounts differ” ; but by law the words are regarded as the true statement.

Care should be taken to see that the date, the name of the payee, and the amount, and generally what the payment is for, are entered on the counterfoil.

All cheques received are looked upon as cash unless paid into the Bank the same day.

It is a fairly common practice for merchants to endorse cheques and send them to their own creditors. When this is

done, the person to whom the cheque is paid is debited and cash credited.

BUSINESS TERMS AND ABBREVIATIONS

Legal Tender.—Gold, silver, and bronze coins are termed money. They serve as a medium of exchange and a measure of value. These coins are made by the mint, and their weight and fineness of metal is determined by law. Money may be termed metallic currency. In addition we have a paper currency of Bank of England notes of 10/–, £1, £5 and larger denominations. When the term currency is used it is understood that it includes both coin and paper. The sovereign is legal tender for any amount, silver coins up to 40/–, bronze coins up to 12 pence; 10/– and £1 notes up to any amount, and £5 notes for any amount over £5. Legal tender denotes that amount in currency which may be tendered in legal satisfaction of a debt. Although for the convenience of payment it is customary for the creditor where necessary to give change, it should be noted that there is an obligation placed on the debtor to tender the correct amount.

Bonded Goods.—Goods which come from foreign countries and which are liable to a duty are deposited in a bonded warehouse until the tax has been paid. These goods are referred to as being “in bond.” Spirits, tobacco, tea, and sugar are cases in point.

Dock Warrants.—Documents, duly stamped, referring to goods in charge of a dock company. Particulars are given of the ships in which the goods were imported, the date of entry, the shipping mark, the weight (net and gross), to whom the goods are deliverable, as well as the date from which warehouse rent accrues.

Drawback (dbk.).—When the Government returns money on certain classes of goods exported on which the Excise duty or import tax has already been paid, the amount is referred to as a “drawback.”

Letter of Credit (L/C).—A letter addressed by a bank or a mercantile house to an agent or correspondent in a foreign country or at home requesting that the bearer named in the letter be supplied with funds up to a certain amount (or it may be unlimited), and that the amount so advanced be charged against their account, or that a bill be drawn.

SUMMARY FOR REVISION

Comparison of Cheques, Bills of Exchange, Promissory Notes, and Bank Notes

	CHEQUES.	BILLS OF EXCHANGE.	PROMISSORY NOTES.	BANK NOTES.
No. and kind of parties	Three parties—drawer, drawee, and payee	Three parties—drawer, drawee, and payee	Two parties—drawer and payee	Two parties—drawer and payee. (The payee is not named, the notes being payable to bearer)
Drawn by	Debtor	Creditor on debtor May be drawn by debtor on a third party	Debtor	Drawn by Bank of England
Party liable for payment	Drawer	Acceptor is liable for payment, the drawer being only secondarily liable	Drawer	Bank in case of bank notes
Kind of order or promise	Is an order on the banker to pay on behalf of the drawer	Is an order on the drawee to pay	Is a promise by the drawer to pay	Is an order on the Bank to pay
How drawn	Drawn singly	May be drawn in sets, as in the case of foreign bills (termed <i>vias</i>)	Drawn singly	Drawn singly
Acceptation	Acceptance not essential	Of no value till accepted	Acceptance not essential	Acceptance not essential
Amount	Can be drawn for any amount	Can be drawn for any amount	Must be drawn for £5 or over	Drawn only for amounts authorised by law
Legal tender	Merely instrument of credit. Not legal tender	Merely instruments of credit. Not legal tender	Merely instruments of credit. Not legal tender	£1. and 10 shilling notes legal tender for any amount; £5 notes are legal tender for amounts of £5 and over
Release	Once discharged cannot be reissued	Once discharged cannot be reissued	Once discharged cannot be reissued	Can be reissued after payment by Bank
To whom payable	Can be made payable to order or bearer	Can be made payable to order or bearer	Can be made payable to order or bearer	Made payable to bearer only
Date of presentation	Drawer is not discharged for six years, unless through delay in presentation the drawer suffers loss through failure of bank	Must be presented for payment on due date or drawer will be discharged	Must be presented for payment on the due date	Can be presented any time until called in by Royal Proclamation
Stamp	Twopenny impressed stamp required	If payable on demand or on sight, twopenny impressed stamp. Otherwise stamp duty ad valorem	In all cases ad valorem stamp duty	No stamp duty necessary
Act	Subject to Bills of Exchange Act	Subject to Bills of Exchange Act	Subject of modified form of Bills of Exchange Act	Subject to Bank Charter Act and British Coinage Acts

Note.—Both cheques and bills of exchange can be endorsed over to X parties.

Letter of Hypothecation.—A letter, drawn up formally, mortgaging property. When a banker advances money to a shipper on documentary security, a letter of hypothecation is given by the shipper to the banker.

Market Report.—A document describing the state of a particular market, circulated among those interested, and containing current prices.

Par of Exchange.—The intrinsic value of the currency of one country expressed in the currency of another. In Great Britain an ounce troy of standard gold, eleven-twelfths fine, is coined into $3\frac{1}{2}\frac{2}{3}\frac{0}{0}$ sovereigns; therefore the price in currency of an ounce of gold is £3 17s. 10½*d*. In France it is laid down by law that 155 twenty-franc pieces shall be coined from one “kilogramme of gold, nine-tenths fine.” The ratio of the franc to the sovereign will be found to work out at 25·2215, which, otherwise expressed, means that the par of exchange is 25¼.

Royalty.—A charge made by the owner of land against a person or company working a mine, colliery, or quarry. The charge is based on so much a ton on every ton of ore or mineral obtained. Other instances are payments made to an inventor for the use of his patent; an allowance made to an author by the publisher of his book.

CHAPTER XI

CONSIGNMENTS

A FORM of business enterprise which plays an important part in the trade of the commercial world is concerned with the sending of goods by a merchant to an agent. The goods still remain the property of the merchant, but the agent undertakes to do his best to sell, on commission. In these circumstances the merchant is termed the consignor and the agent the consignee. The trader may send goods to an agent in another country, or to an agent in a different part of the same country, on this understanding. Conversely, he may himself receive goods from and act as agent for a merchant abroad or in a different part of the country from that in which his own business is carried on.

When a consignment is made, the goods are taken out of stock and despatched to the consignee. Note particularly that, although the consignor no longer has the *custody* of the goods, they are still his property, and remain so until they are sold. Therefore *the consignee cannot be treated as a debtor prior to the sale.*

The usual terms governing a consignment provide that the consignee shall be entitled to recover his expenses and deduct an agreed commission for his services. This commission is generally fixed at a percentage of the price at which the goods are sold.

Should it happen that the consignee, after selling the goods, is unable to obtain payment from a purchaser, the penalty of such a bad debt would normally fall upon the consignor, since the consignee is merely acting as an agent to sell the goods on behalf of the consignor, and his liability is only in respect of money he receives for the goods.

Del Credere Agent and Commission

An agent who guarantees to the consignor payment of the goods sold on credit is known as a del credere (pronounced dël

krěd-ěr-ě) agent and is liable immediately a sale is effected, even though he has not received payment. In return for thus guaranteeing the solvency of the purchasers, the consignee will become entitled to an additional commission termed a *del credere* commission. This *del credere* commission is a percentage of the selling price of the goods, and, like the ordinary commission, is calculated before any deductions for expenses are made. From the consignor's point of view, the extra commission is really a payment of insurance against bad debts. The purchasers, generally speaking, are people of whose financial or business standing the consignor is without intimate knowledge, but the consignee, as a matter of ordinary business practice, ought to be satisfied that those to whom he sells on credit are likely to be able, all things being normal, to meet their obligations. The consignee is therefore in a good position to undertake the bad debts risk, and the arrangement is a perfectly fair one.

Arrangements the Consignor Makes

If, as is customary, the goods are being sent abroad, the consignor will enter into an agreement with a shipping company for the goods to be shipped, and will send to the consignee a bill of lading. This bill is made out in triplicate, and is dated and signed by the shipping agents. The master of the ship holds one copy, and the consignor obtains the other two and sends one to the consignee with the consignment invoice. This invoice resembles the usual sales invoice in form, except that it does not charge the consignee with the value of the goods (for the reason already elaborated). The object of this consignment invoice is twofold: it conforms to Customs requirements, and it gives an indication to the consignee of the approximate price that the consignor hopes to obtain.

Arrangements the Consignee Makes

The consignee, on receipt of the bill of lading, will await the arrival of the ship, and when the ship arrives and the goods are ready for clearance, he will present the bill of lading and collect the goods. He can now proceed to sell the goods, which he may do personally or through a broker. Later, when the goods are sold, the broker passes particulars to the consignee by means of a sales note, which in conventional form sets out the description, the shipping marks of the goods, and the price realised.

Particulars of the broker's expenses and commission are also shown, and usually a remittance for the net proceeds is enclosed with the sales note. The consignee will now make out an **Account Sales** giving full particulars of the sale of the consignment, and send it to the consignor. On receipt of this document the consignor is able to complete his records and ascertain whether a loss or a gain has been made. The following is a specimen of an Account Sales :

ACCOUNT SALES of 90 casks lard, ex s.s. *London*, Captain Richards, from Boston, received by us and sold by order and for account of Messrs. Smith, Jones & Co., Chicago.

Marks.	Nos. of Cases.		Cwts.	Qrs.	Lbs.	Per Cwt.	£	s.	d.
<div style="border: 1px solid black; padding: 5px; display: inline-block; transform: rotate(45deg); transform-origin: center;"> R E AB </div>	1/60	60 casks fine lard, gross	180	-	-				
		Cwts. Qrs. Lbs.							
		Draft .. - 2 4							
		Tare .. 29 1 24	30	-	-				
			150	-	-	40/-	300	-	-
	1/30	30 casks, inferior, gross	90	-	-				
		Cwts. Qrs. Lbs.							
		Draft .. - 1 2							
		Tare .. 14 2 26	15	-	-				
			75	-	-	37/4	140	-	-
							£440	-	-
		CHARGES	£	s.	d.				
		Insurance £450, @							
		20s.%, policy 2s. ..	4	12	-				
		Freight as per bill of							
		lading	14	8	6				
		Customs entry and							
		stamps	1	2	-				
		Discharging, weighing,							
		housing, coopering,							
		sampling, and rent ..	11	4	-				
		Sales expenses and ad-							
		vertising	2	5	-				
		Fire insurance ..	-	16	-				
		Brokerage on £400 @ 1%	4	8	-				
		Commission on £440 @							
		2½%	11	-	-				
							49	15	6
							£390	4	6
		E. & O. E.							
		London, 19th June, 1931.							
		Arthur Broadbridge & Co.							

Just as every bill of exchange is a bill payable to the acceptor and a bill receivable to the payee, so also every consignment is a consignment outwards to the owner of the goods and a consignment inwards to the consignee. It will therefore be clear that the records arising out of consignments may conveniently be considered under two headings—Consignments Outwards and Consignments Inwards.

Consignments Outwards

When making records of a consignment outwards, bear in mind that the objects of these records are :

- (1) To account for the despatch of the goods (Goods on Consignment or Sales Account).
- (2) To show the financial result of the consignment as a loss or gain (Consignment Account).
- (3) To show the consignee's personal position in relation to the consignor (Consignee's Personal Account).

From the following details the consignor's books can be prepared :

Jones Bros., of Swansea, sent coal costing £6,000 to Calais. Jacques et Cie were the consignees. Jones Bros. paid carriage

CONSIGNMENT OUTWARDS

JONES BROS.' BOOKS

Journal	Dr.	Cr.
	£ s. d.	£ s. d.
Consignment to Jacques et Cie <i>Dr.</i> To Goods on consignment (Being coal despatched for sale on consignment.)	6,000 - -	6,000 - -
Consignment to Jacques et Cie <i>Dr.</i> To Jacques et Cie (Being expenses £25, and com- mission £272, in connection with sale of consignment.)	297 - -	297 - -
Jacques et Cie <i>Dr.</i> To consignment to Jacques et Cie (Being amount of consign- ment sales.)	6,800 - -	6,800 - -

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and freight £140, insurance £20, and sundry expenses £5. Jacques et Cie sold the coal for £6,800 and had to pay charges in connection with the sale amounting to £25. Commission had been agreed at 4% and Jacques et Cie sent a s/d (sight draft) for the amount owing to Jones Bros.

Dr.	Cash Book		Cr.
To Jacques et Cie ..	£ 6,503	By Consignment to Jacques et Cie:	£
		Carriage and Freight	140
		Insurance	20
		Sundry Exs. ..	5

Ledger

Dr.	Consignment to Jacques et Cie		Cr.		
To Coal	£	6,000	By Jacques et Cie (Sales)	£	6,800
" Bank:					
Carriage and Freight	140				
Insurance	20				
Sundry Exp.	5				
" Jacques et Cie:					
Expenses	25				
Commission 4% ..	272				
" Profit	338				
	<u>£6,800</u>			<u>£6,800</u>	

Dr.	Jacques et Cie		Cr.
To Consignment Sales ..	£ 6,800	By Consignment Expenses	£ 25
		Commission	272
		Bank (s/d)	6,503
	6,800		£6,800

Dr.	Goods on Consignment	Cr.
		By Consignment to Jacques et Cie £ 6,000

At the end of the trading period the amount in the Goods on Consignment Account will be transferred to the Trading Account. The balance (net profit or net loss) in the Consign-

ment to Jacques et Cie will be transferred to the Profit and Loss Account.

The following is a more involved example of a Consignment Outwards :

A. Black, Sheffield, on the 2nd January, 1931, consigned to C. White, Cape Town, 400 Kraft machines valued at 30s. each. A. Black paid carriage £32 and sundry expenses £6. On the 20th April C. White notified A. Black that 40 machines had been damaged in transit. A. Black on the 21st April claimed on the X. Insurance Co. in respect of these machines, and on the 24th April received £50 in settlement. On the 28th May A. Black received A/S from C. White showing the sale of 250 machines at £2 2s. each, and the sale of the 40 damaged machines for £8 the lot. C. White's expenses were : carriage and dock dues, £14 ; sundries, £4 ; commission, 5 per cent., del credere, $1\frac{1}{4}$ per cent. A. Black received s/d (sight draft) from C. White for £400.

A. BLACK'S BOOKS

Journal		Dr.			Cr.		
		£	s.	d.	£	s.	d.
1931							
Jan. 2	Consignment to C. White Dr. To goods on consignment (Being consignment of 400 Kraft machines @ 30/- each.)	600	-	-	600	-	-
May 28	Consignment to C. White Dr. To C. White (Being sundry expenses and commission on consignment.)	51	6	3	51	6	3
„ 28	C. White Dr. To Consignment to C. White (Being sales as per A/S.)	533	-	-	533	-	-

Dr.		Cash Book			Cr.				
		£	s.	d.			£	s.	d.
1931					1931				
April 24	To X. Insurance Co. (consignment to C. White)	50	-	-	Jan. 2	By Consignment to C. White (carriage)	23	-	-
May 28	To C. White	400	-	-		.. Consignment to C. White (sun- dries) ..	6	-	-

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Ledger

Dr.				Consignment to C. White				Cr.					
1931				£	s.	d.	1931				£	s.	d.
Jan. 2	To 400 Kraft machines			600	-	-	April 24	By Cash (X. Insurance Co.)	..		50	-	-
	" Cash (carriage)			32	-	-	May 28	A/S ..			533	-	-
	" Cash (sundries)			6	-	-	" 31	" Stock c/d ..			180	8	-
May 28	" C. White :												
	Dock Dues			14	-	-							
	Sundries			4	-	-							
	Commission 5%			26	13	-							
	Commission 1½%			6	13	3							
	" Profit			74	1	9							
				£763	8	-					£763	8	-
June 1	To Balance b/d	..		£180	8	-							

Dr.				C. White				Cr.					
1931				£	s.	d.	1931				£	s.	d.
May 28	To A/S Consignment			533	-	-	May 28	By Sundry Expenses and Commission			51	6	3
								„ Cash s/d			400	-	-
								„ Balance c/d			81	13	9
				£533	-	-					£533	-	-
June 1	To Balance b/d	..		£81	13	9							

Dr.				Goods on Consignment				Cr.				
				1931						£	s.	d.
				Jan. 2	By Consignment to							
					C. White ..	..				600	-	-

From the above details you will notice that only part of the goods consigned had been sold at balancing time, therefore in accordance with our usual procedure when ascertaining profit (e.g. in the Trading Account) the value of the stock must be credited. By doing this, credit can be taken for any gain from the goods sold. The stock in this example will not be exactly 110 machines @ 30/- each. It can be assumed that the value of the machines in Cape Town is the original cost plus the expenses involved in getting them to Cape Town and having them ready for sale there.

The value of the unsold stock has been ascertained as follows

Cost of goods	..	..	..	£600
A. Black's expenses	..	..	..	88
C. White's expenses	..	..	..	18

Total cost of 400 machines £656

Value of stock : 110 machines.

$$\pounds \frac{656}{400} \times \frac{110}{1} = \pounds 180 \text{ 8s.}$$

Notice that only the expenses in connection with the whole of the consignment have been considered when valuing the stock. Commission, for example, is connected with the goods that have been sold and can have no bearing on the value of the stock.

When closing the books at the end of the financial period, the Goods on Consignment Account will be transferred to the Trading Account and the net profit shown in the Consignment Account will be transferred to the Profit and Loss Account as usual. The stock on hand that has been brought down to the debit of the Consignment Account is an asset (representing the value of the consignor's machines in the hands of the consignee at Cape Town), just as the ordinary stock in trade (closing stock) is an asset and will be shown in the Balance Sheet.

FORMULA FOR MAKING ENTRIES IN THE CON-SIGNOR'S BOOKS

- (1) Debit Consignment Account with the value of the goods sent on consignment and credit a Goods on Consignment Account.
- (2) Debit Consignment Account with all expenses caused by the consignment—dock dues, insurance, freight, etc., and credit cash or a personal account.
- (3) When the consignee sends in an Account Sales, debit him with the gross amount and credit the Consignment Account.
- (4) Debit the Consignment Account with expenses, brokerage, commission, and other charges deducted by the consignee, and credit the consignee's account.
- (5) The consignee's account, when balanced, will show the amount due by him to the consignor. As a rule, a draft or bill of exchange or a cheque will have been received and debited to cash or bank, and this amount, when credited, will balance his personal account.
- (6) When part of the goods only are sold, the unsold stock and a proportionate amount of the charges—insurance, freight, dock dues, etc.—must be credited and carried forward and shown as an asset in the Balance Sheet.

- (7) When the whole consignment has been sold and the Account Sales duly recorded, the balance of the Consignment A/c is transferred to the Profit and Loss Account.

EXERCISE 73

On October 1st the Sheffield Cutlery Company consigned cutlery to the value of £400 to the Harper Company, New York. The consignors paid freight £20, insurance £30, carriage £4, and drew on the consignees a two months' bill for £200. On December 29th the Harper Company sent an Account Sales showing that half the cutlery had been sold for £300, and that dock charges £5 and warehouse rent and charges £7 had been paid. Commission charged 10% sales.

Prepare the necessary Ledger Accounts to show the position in the Sheffield Cutlery Company's books on December 31st, the end of their financial year.

EXERCISE 74

The Elite Co., Ltd., consigned to K. Morrison 1,000 radio valves valued at 5s. each and paid freight and other charges amounting to £10. Later K. Morrison sent Account Sales showing that 800 valves had been sold at 8s. 6d. each and that his expenses were £2 10s. and commission 5%. Attached to the A/S was a sight draft for £300 on account.

Record these transactions in the consignors' books.

EXERCISE 75

S. Smart, London, consigned to the Bombay Textile Company, Bombay, 60 bales of cotton goods valued £640. The consignor paid shipping charges and freight £47, insurance £12 8s., and sundry expenses £4 12s. The consignee accepted a Bill of Exchange for £500 on account. The Bombay Textile Company sold 40 bales at £18 5s. per bale for cash and the remaining 20 bales on credit to J. Swift at £18 10s. per bale. The consignee paid expenses amounting to £15 6s. and charged 5% commission plus 2½% del credere.

Make out the entries to record these transactions in the books of the consignors, also the Account Sales sent by the Bombay Textile Company.

EXERCISE 75A

On July 30th, 1931, G. Hammond shipped to A. Kemp, Rome, goods invoiced at £1,600 for sale on commission. The goods cost £1,250, which Hammond paid for in cash. He also paid £45 freight and charges. On December 16th, 1931, he received an Account Sales showing that the goods had been sold for £1,780, less Kemp's commission at 5% and his expenses £50. At the same time he received a two months' bill for the net proceeds.

Show the entries in G. Hammond's books.

Consignments Inwards

When recording a consignment inwards, bear in mind two things :

- (1) No record of the receipt of the consignment is made in the books of account, and
- (2) All other transactions are treated in accordance with the rule ; debit the receiving account and credit the giving account. Any expenditure made on account of the consignment is really made on the consignor's behalf, and the consignor's personal account should therefore be debited with such items.

A Simple Example

Here is an example which is simplicity itself, yet which contains a fairly complete exposition of the fundamental principle :

" B " received a consignment of goods from " A " valued at £400.

" B " paid expenses £20 on the consignment, and sold the goods for £500.

" B " charged 5 per cent. commission, and sent " A " a sight draft in settlement.

Applying the two rules already mentioned to the transactions, the following is the result :

- (1) Receipt of consignment of goods valued £400. No entry in the accounts.
- (2) Paid expenses £20. Debit " A " and credit cash.
- (3) Sold consignment for £500. Debit cash and credit " A." (" A " is credited because he gave the goods.)
- (4) Commission : this item represents the value of the

service given by "B" to "A." Therefore "A" is debited and Commission Account is credited.

- (5) Sight draft, £455, paid by "B." "A" is debited because he receives the cash, and Cash Account is credited.

The records of these transactions in "B's" books are as follows :

CONSIGNMENTS INWARDS

Dr.	Cash Book						Cr.
To "A" (sale of consignment) ..	£	s.	d.	By "A" (consignment expenses) ..	£	s.	d.
	500	-	-	" "A" s/d	20	-	-
					455	-	-

Journal				Dr.			Cr.		
				£	s.	d.	£	s.	d.
"A"	..	..	Dr.	25	-	-			
To Commission	..	..					25	-	-
(Being 5% commission on sale of									
"A's" consignment.)									

Ledger										
Dr.				" A's " Account				Cr.		
To Cash (expenses on consignment) ..				£	s.	d.	By Cash (sale of consignment) ..			
" Commission ..				20	-	-	500 - -			
" " Commission ..				25	-	-				
" Cash s/d ..				455	-	-				
				£500	-	-	£500 - -			

Dr.	Commission						Cr.
	£	s.	d.	By "A" (consignment)	£	s.	d.
					25	-	-

It will be seen that the balance of the Cash Book, £25, is the amount of commission earned by "B" as shown in the Commission Account. The example shows that to make the consignee's records is a straightforward task.

When the goods are received by the consignee, although a record is not made in the *accounts*, in practice the goods must be recorded somewhere. An impossible position would be created

if a trader or firm did not record goods that were received. The consignee will record details of the consignment in a Consignments Inwards Book or Consignments Stock Book, but nothing further will be done with the entry. This book is not a book of original entry, and the entries in it are not posted.

From the particulars given in the example on page 162 it is now possible to make out the records in C. White's books, but dates cannot be shown.

C. WHITE'S BOOKS

Journal			Dr.			Cr.		
1931			£	s.	d.	£	s.	d.
	A. Black	Dr.	33	6	3			
	To Commission					26	13	-
	„ Commission (Del Credere)					6	13	3

Dr.				Cash Book				Cr.			
1931		£	s.	d.	1931		£	s.	d.		
To A. Black (25 Kraft machines @ 42s. each)		525	-	-	By A. Black : Dock Dues .. Sundries ..		14 4	-	-		
" A. Black (40 damaged Kraft machines) ..		8	-	-	" A. Black ..		400	-	-		

Ledger

Dr.					A. Black					Cr.					
1931					1931										
To Cash :					£	s.	d.	By Cash (250 Kraft machines @ 42s.)					£	s.	d.
Dock Dues ..					14	-	-	.. Cash (40 damaged Kraft machines)					525	-	-
Sundries ..					4	-	-						8	-	-
.. Commission ..					26	13	-								
.. Del Credere ..					6	13	3								
.. Cash s/d ..					400	-	-								
.. Balance ..					81	13	9								
					£533	-	-						£533	-	-
								By Balance b/d ..					£81	13	9

Dr.				Commission				Cr.			
				1931	By A. Black (con-			£	s.	d.	
					signment)	..		33	6	3	

**FORMULA FOR RECORDING ENTRIES IN THE
CONSIGNEE'S BOOKS**

- (1) When goods are received on consignment, no entry is made in the financial books. A record is kept in a memorandum book (the Consignment Stock Book), which forms no part of the Double Entry scheme.
- (2) Debit the consignor with the various expenses connected with the consignment and credit cash or a personal account, according to whether the expenses were paid or not paid at the time.
- (3) On sending a bill or cash in advance, debit the consignor and credit cash or bills as the case may be.
- (4) When a sale is effected for cash, debit cash and credit consignor.
- (5) When a sale is effected on credit, debit the personal account of the person to whom the goods have been sold and credit the consignor. This is done by means of a Journal entry.
- (6) On forwarding an Account Sales, debit the consignor with the commission and credit Commission Account—by means of a Journal entry.
- (7) The balance of the consignor's account will show the amount due to him, and, if a bill or draft is sent to him in settlement, when the consignor's account is debited with this amount this will close the account.

EXERCISE 76

S. Wilson consigned to T. Barker 100 bicycles valued £3 10s. each. He paid freight £36, insurance £6 5s., and other expenses £2 15s. Subsequently T. Barker sent an Account Sales showing that the bicycles were sold for cash at £5 5s. each and that he had paid expenses on account of the consignment amounting to £24 8s. Attached to the Account Sales was a sight draft for the amount due to S. Wilson less 5% commission.

Make out the entries to record these transactions in the books of :

- (a) T. Barker.
- (b) S. Wilson.

EXERCISE 77

"A" received from "B" on consignment 600 barrels of flour at 20/- per barrel. He paid freight £25, insurance £5,

storage £5. He sold 800 barrels at 26/-, and the remainder at 25/-, and charged "B" a commission of $2\frac{1}{4}\%$ on such sales. You are required to show how such transactions would appear in the books of "A."

(Chartered Institute of Secretaries, Final.)

EXERCISE 78

On May 1st, 1981, J. Smith consigned to A. Barnes, Bombay, 60 cases of goods, which cost £70 each but were invoiced at £90. The expenses paid by the consignor were freight £410 and insurance £70. On December 5th, 1981, an Account Sales was received showing that 40 cases had been sold at £92 each. A draft for this amount, less commission 10% and charges £12, was enclosed.

Make the entries to record the consignment in J. Smith's books.

EXERCISE 79

On November 5th, 1981, A. Dawson shipped a consignment of goods, valued £1,500, by s.s. *London* to his agent, J. Hammond, and paid shipping charges and freight £54; other expenses £11. On January 12th, 1982, A. Dawson received an Account Sales showing that two-thirds of the goods had been sold for £1,460 and that J. Hammond had paid landing charges and carriage £12. Warehouse charges on the whole consignment £18. Sundry expenses of sale £4. Commission 5%. Attached to the A/S was a s/d for £1,000. On February 16th A. Dawson sent a further consignment of goods, valued at £840, by s.s. *Liverpool*, and paid shipping and freight charges £38, other expenses £9. On February 21st A. Dawson received an Account Sales showing that the remainder of the consignment by s.s. *London* was sold for £880 and that J. Hammond's expenses were £16. Hammond had deducted 5% commission and enclosed s/d for balance due. On May 10th Dawson received an Account Sales showing that one-half of the consignment by s.s. *Liverpool* had been sold for £710 and that he had paid landing charges and carriage £9. Warehouse charges on the whole consignment £12. Attached to the A/S was a sight draft for the amount due after deducting 5% commission.

You are required to make the entries necessary to record the above in A. Dawson's books and to balance the Consignment

Account on January 12th, 1932, February 21st, 1932, and May 10th, 1932.

EXERCISE 80

PART I

On January 1st, 1934, after all adjustments had been made, the books of H. Mason disclosed the following assets and liabilities :

Sundry Debtors :	£	s.	d.	£	s.	d.
A. Fairall .. .. .	..	..		250	8	5
G. Nurse .. .. .	..	..		135	13	4
A. Sangar of Montreal, secured by consignment goods held for sale :						
Draft cleared	300	-	-			
Wharfage dues paid	14	10	-			
				314	10	0
Bills Receivable :						
No. 15 due January 15th, 1934 ..	..	..		257	9	-
No. 16 due February 15th, 1934 ..	..	..		253	19	3
Stock on hand .. .. .	..	..		3,300	-	-
Cash at Bankers .. .. .	..	..		238	9	-
Petty Cash .. .. .	..	..		50	-	-
Fixtures and Fittings .. .. .	..	..		200	-	-
Rates paid in advance .. .. .	..	..		15	19	-
Expenses owing :						
Urban Electricity Co. : estimated ..	..	..		15	-	-
Travellers Commission .. .. .	..	..		25	-	-
Bought Ledger Accounts :						
F. Jack .. .. .	..	..		374	7	11
H. Jennings .. .. .	..	..		264	6	8
Bill Payable, No. 19, due January 17th, 1934 ..	..			337	13	4
H. Mason held for sale on behalf of A. Sangar of Montreal :						
200 boxes, 1 doz. each, silk hose.						
200 boxes, $\frac{1}{2}$ doz. each, silk scarves.						
Terms :						
Remittance to A. Sangar upon the completion of sale less 10 per cent. commission on gross proceeds and Wharfage dues and out- goings paid.						

By means of the Journal, ascertain the amount of H. Mason's Capital on January 1st, 1934, open the ledgers, enter the following transactions in the proper subsidiary books, post to the ledgers and extract a Trial Balance. All receipts were paid to the Bank, and all payments were made by cheque unless otherwise stated.

1934

- Jan. 1—Paid Travellers Commission due.
 „ 3—Sold to E. Bowey :
 360 Jumpers at 10/9 each.
 „ 5—Sold for Cash the whole of the Montreal consignment :
 Hose realised 45/- a box.
 Scarves realised 24/6 a box.
 „ 6—Prepared Account Sales of Montreal consignment, sent same to
 A. Sangar, together with sight draft on Bank of Montreal
 for the balance due.
 „ 8—Received from E. Bowey, 36 Jumpers, soiled, part of sale on 3rd
 inst. Sent him credit note and returned the goods to the
 manufacturer, F. Jack.
 „ 11—Purchased from H. Jennings :
 12 dozen assorted Dressing Gowns at 25/- each.
 „ 12—Received from F. Jack, credit note for soiled Jumpers £10 16s.
 „ 13—Accepted F. Jack's draft at 2 months for the amount of his
 account.
 „ 15—Drew on A. Fairall at one month for the amount of his account.
 „ 16—G. Nurse paid his account less 5 per cent. discount.
 „ 17—Received A. Fairall's acceptance.
 Discounted with bankers bills of exchange in hand. Bankers
 charged for discount £2 5s.
 Paid H. Jennings amount of his account owing on January 1st,
 less 2½ per cent. discount.
 „ 19—Purchased from F. Jack, 20 dozen Jumpers at 8/6 each for
 delivery to G. Nurse. Invoiced same to G. Nurse at 12/9
 each.
 „ 20—Drew cheques :
 Petty Cash £ s. d.
 Self 100 — —
 Urban Electricity Co. 250 — —
 Urban Electricity Co. 18 6 —
 „ 22—Received from G. Nurse, 2 boxes each containing 1 dozen Jump-
 ers, soiled, part of transaction on the 19th inst. Sent him
 credit note and returned the goods to F. Jack.
 „ 24—Purchased and paid for a Traveller's Motor Car, price £135.
 „ 26—Received credit note from F. Jack.
 „ 31—Drew cheque for Petty Cash £32.
 Petty Cash payments during month were :

	£	s.	d.
Salaries and Wages	80	—	—
Carriage	10	10	—
Cash Purchases	33	10	—
General Expenses	8	—	—

PART II

Explain the use of each of the usual subsidiary books.
 Enter into each book, other than the cash book, two reasonable

specimen entries. Open the Cash Book by a payment to the Bankers of £2,000, being part of the Capital of the proprietor, make in the Cash Book on each side, four specimen entries and show the use of the discount columns. Post to the ledgers and extract a Trial Balance.

(*L. Ch. C.*, 1934.)

EXERCISE 81

PART I

T. Rowland and G. Mills traded as the Eastern Silk Weaving Company. On January 1st, 1934, their position was as follows:

	£	s.	d.
Sundry Debtors :			
B. Ames	833	6	8
C. Prior	545	0	9
Sundry Creditors Bought Ledger :			
E. Pearson	932	-	-
F. Clay	439	6	5
Bills Receivable :			
No. 15, due January 15th, 1934	638	18	1
No. 16, due February 15th, 1934	723	11	4
Bill Payable :			
F. Clay, due January 22nd, 1934	830	11	4
Sundry Trade Liabilities :			
Telephone	13	1	8
Electric Light	29	11	1
Freehold Premises	12,000	-	-
Mortgage on Freehold Premises at 6 per cent. per annum	8,000	-	-
Interest due on Mortgage, December 31st, 1933 ..	120	-	-
Machinery and Plant	3,000	-	-
Stock on Hand	4,300	-	-
Office Cash in Hand	100	-	-
Cash at Bankers on Current Account	223	13	8
T. Rowland's Capital	8,000	-	-
G. Miles Do.	4,000	-	-

Open the Ledgers with the above balances, enter the following transactions in the proper subsidiary books, post to the Ledgers and extract a Trial Balance.

All receipts were paid to the Bank and all payments, unless otherwise stated, were paid by cheque.

1934

Jan. 2—Sold to G. Sanders :

40 bales, each 120 yards, at 1/9 yard.

Terms, cash in 14 days, less 7½ per cent. discount.

,, 4—Purchased from E. Pearson :

1,400 lb. various colours at 11/9 per lb.

Extra charge on 400 lb. at 3d. per lb.

,, 5—Paid Mortgage interest due on December 31st, 1933, less tax at 5/- in the £.

,, 6—B. Ames paid the amount of his account less discount 5 per cent.

,, 9—Drew on C. Prior at one month from this date for the amount of his account.

,, 11—Paid Telephone and Electric Light Accounts.

,, 12—Received C. Prior's acceptance.

,, 15—Paid E. Pearson amount owing on January 1st, 1934, less discount 3½ per cent.

Drew cheque for Office Cash, £200.

,, 16—G. Sanders having failed to meet the terms of sale on the 2nd inst., received his acceptance at one month from to-day's date for the amount owing.

,, 18—Accepted F. Clay's draft at one month from this date for the amount owing.

,, 19—Discounted with Bankers Bills Receivable in hand, Bankers charged for discount £6 15s.

,, 20—Sold to B. Ames :

84 bales, each 126 yards, at 1/3 yard.

,, 22—Purchased from F. Clay :

400 lb. assorted colours at 12/6 lb.

,, 23—B. Ames returned 12 bales soiled, part of sale on 20th inst. Sent him credit note.

,, 24—Sold for cash the bales returned by B. Ames at half the invoice price.

,, 26—Returned to F. Clay 50 lb. soiled silk, part of purchase on the 22nd inst.

Drew cheque for Office Cash, £300.

,, 29—Received credit note from F. Clay.

Payments by cash for the month were :

							£	s.	d.
Wages	..	..	..	..	..	..	473	9	8
Salaries	..	..	..	..	..	..	84	10	—
Trade expenses	..	..	..	..	..	..	49	10	4
Drew cheque for Office Cash	..	..	..	..	..	..	110	10	—
Do.		T. Rowland	..	..	..	..	300	—	—
Do.		G. Miles	..	..	..	..	150	—	—

PART II

The books of James Russell disclosed the following summary of accounts on January 1st, 1934 :

							£	s.	d.
Sales	..	..	..	..	..	..	6,300	—	—
Purchases	..	..	..	..	..	..	4,000	—	—

	£	s.	d.
Wages.. .. .	750	-	-
Rent, Rates, etc.	208	15	-
Salaries	200	-	-
Trade Expenses	207	10	-
Discounts allowed	83	15	-
Book Debts	1,475	-	-
Creditors	600	-	-
Furniture	75	-	-
Personal Drawings	450	-	-
Cash in hand.	25	-	-
Bank Overdraft	250	-	-
Stock on hand, January 1st, 1933	750	-	-
Stock on hand, December 21st, 1933	825	-	-

Ascertain :

- (1) James Russell's capital on January 1st, 1933.
- (2) The net profit for the year 1933.
- (3) James Russell's capital on December 31st, 1933.

(*L. Ch. C.*, 1934.)

EXERCISE 82

PART I

The Balance Sheet of K. Howard, after making all adjustments at December 31st, 1933, showed assets and liabilities as follows :

	£	s.	d.
Sundry Debtors :			
A. Rest	432	-	-
W. Moss	592	10	-
Bills Receivable :			
No. 10 due January 15th, 1934	400	-	-
No. 11 due January 15th, 1934	407	1	6
Bills Payable :			
No. 14 due January 22nd, 1934	431	-	-
No. 15 due February 22nd, 1934	400	-	-
Sundry Creditors :			
E. Jack	450	10	-
G. Hope	448	10	-
Freehold Premises	3,000	-	-
Furniture and Fittings	200	-	-
Rates and Insurance paid in advance	30	-	-
Stock on hand	3,000	-	-
Bank Overdraft	1,331	11	6

Ascertain the amount of K. Howard's capital. Open the Ledgers with the above balances, enter the following transac-

tions in the proper subsidiary books, post to the Ledgers and extract a Trial Balance.

All receipts were paid in to the Bank and all payments were made by cheque unless otherwise stated.

1934

Jan. 1—Drew cheque for Petty Cash, £100.

„ 3—Sent on Consignment to S. Marchant, Belfast :
100 chests of tea, each 90 lb., *pro forma* Invoice at 2½ lb.
Commission to be allowed 10 per cent. on gross sales.

Paid charges on consignment :						£	s.	d.
Carriage	..	..	..	..	..	16	11	-
Insurance	..	..	..	..	..	7	9	-

Drew on S. Marchant at sight for £600, which amount was duly credited at Bank :

„ 5—Purchased from G. Hope :

60 chests tea, each 80 lb., at 2½ lb.

„ 8—A. Rest paid his account less 5 per cent. discount.

„ 9—Paid E. Jack amount of account less 2½ per cent. discount.

„ 11—Sold to A. Rest :

40 chests tea at £9 13s. 4d. per chest.

Returned to G. Hope 5 chests tea damaged, part of purchase on 5th inst.

„ 13—Received Credit Note from G. Hope.

„ 15—Drew on W. Moss at 2 months dated to-day for the amount of his account.

Drew cheque for Petty Cash, £100.

„ 18—Received W. Moss's acceptance, discounted same with Bankers, who charged £2 for discount.

20—Received from C. Edges £320 in settlement of a debt which had been written off as bad.

„ 22—Received from Assam Tea Co., on Consignment, 200 chests of tea, each 80 lb. Our commission 7½ per cent. on gross sales.

Accepted G. Hope's draft at 2 months from this date for the amount of his account due December 31st, 1933.

„ 23—Sold to W. Grove :

40 chests tea, each 80 lb. at 2¼ lb.

Purchased from E. Jack : .

2,000 lb. coffee at 2½ lb.

„ 25—W. Grove returned two chests of tea, damaged, part of sale on 23rd inst. Sent him Credit Note.

„ 29—Sold for cash the whole of the Assam Tea Company's consignment. Tea realised £9 6s. 8d. per chest. Paid rent and wharfage dues on Assam Consignment £49 10s.

Sent Account Sales with remittance to the Assam Tea Co.

„ 30—Received from S. Marchant, of Belfast, Account Sales and remittance for balance due on consignment of tea on January 3rd last. Included in the account sales were rent and wharfage dues, £51. Tea realised 2½ lb.

1934

Jan. 31—Drew cheque for Petty Cash, £100.

Drew cheque for self, £100.

Petty Cash payments are posted at the end of each quarter.

PART II

From the following details ascertain the Capital of W. Mears on January 1st, 1934. All the Cash Book items refer to assets or liabilities on December 31st, 1933, and in addition, at that date, W. Mears possessed the following assets :

	£	s.	d.
Freehold Premises	4,000	-	-
Furniture and Fixtures	200	-	-
Stock on hand	1,500	-	-

and had liabilities :

Bill payable, No. 32, due February 18th, 1934 ..	433	-	-
Loan on Mortgage of Freehold Premises	2,500	-	-

Prepare a three-column Cash Book, enter therein the items, total the two sides and bring down the balances :

1934	£	s.	d.
Jan. 1—Cash in hand	125	6	6
Cash in Bank	813	16	4
3—Received from E. Robins cheque in settlement of his account, £617 10s., after deduction of discount, 5 per cent.			
9—Bill receivable, No. 16, £219 11s. 9d., in hand, duly met at Bankers.			
Bill receivable, No. 14, W. James, £177 3s., under discount at Bankers, returned dishonoured. Bankers paid noting charges, 2/-.			
12—Received from A. Gay cheque £316 13s. 4d., in settlement of account, after deduction of discount, 5 per cent.			
18—Bill payable, No. 31, £397 11s. 3d., duly met at Bankers.			
20—Received from E. Wake by approved cheque a sum equal to 15/- in the £ in full settlement of his liability at December 31st; 1933, £380 10s.			
23—Paid by cheque the following accounts, each less 2½ per cent. discount :			
A Craig	412	-	-
W. Stevens	480	-	-
24—All funds in hand paid to Bankers.			

Open the Ledgers and post all items in the Cash Book. Prove the accuracy of your work by means of a Trial Balance.

(L. Ch. C., 1934.)

EXERCISE 83

PART I

The following information was contained in the books of G. Fenn on January 1st, 1934 :

						£	s.	d.
Sundry Debtors :								
J. Morris	..	..	..	..	..	166	13	5
D. Carter	..	..	..	..	..	351	13	3
E. Lover	..	..	..	..	..	281	13	4
Sundry Creditors :								
G. Hewitt	..	..	..	..	..	439	16	3
H. Ball	..	..	..	..	..	326	3	4
Bill Payable :								
G. Hewitt, due January 22nd, 1934	..	..	..	..	..	434	0	5
Bill Receivable :								
J. Morris, due January 18th, 1934	..	..	..	..	..	233	6	7
D. Carter, due February 18th, 1934	..	..	..	..	..	321	11	11
Freehold Premises	..	..	..	..	..	4,000	-	-
Loan on Mortgage of Freehold Premises at 6 per cent. per annum	..	..	..	..	..	2,500	-	-
Stock on hand	..	..	..	..	..	1,500	-	-
Balance at Bankers :								
On Current Account	..	..	..	..	..	395	1	6
On Deposit Account	..	..	..	..	..	1,500	-	-
Cash in hand	..	..	..	..	..	50	-	-
Furniture and Fittings	..	..	..	..	..	200	-	-
Contingent liability for bills under discount at Bankers :								
D. Carter, due January 18th, 1934	..	..	..	..	..	313	0	6

By means of the Journal ascertain the capital of G. Fenn. Open the accounts in the usual ledgers with the above balances, enter the following transactions in the proper subsidiary books, post to the ledgers and extract a Trial Balance.

All receipts were paid to the Bank and all payments were made by cheque unless otherwise stated.

1934

- Jan. 1—Received from E. Lover cheque in settlement of account less 5 per cent. discount.
- „ 2—Purchased from G. Hewitt :
50 dozen Scarves at 33/4 dozen.
- „ 5—Paid Insurance Premium due to Atlas Assurance Co., £13 3s. 9d.
- „ 6—Returned to G. Hewitt 5 dozen Scarves soiled, part of purchase on 2nd inst.
- „ 10—Received Credit Note from G. Hewitt.
- „ 12—Sold to E. Lover :
100 Dressing Gowns at 25/3 each.

1934

- Jan. 13—Drew cheque for Petty Cash, £100.
- „ 16—E. Lover returned 10 Dressing Gowns soiled, part of purchase on the 12th inst. Sent him Credit Note.
- „ 18—J. Morris's acceptance due this day returned dishonoured.
Drew on D. Carter at two months from this date for the amount of his account.
- „ 22—Accepted G. Hewitt's draft for the amount of his account owing on January 1st, 1934.
- „ 23—Received D. Carter's acceptance. Discounted with Bankers Bills Receivable in hand. Bankers charged for discount £4 2s.
- „ 24—Purchased from H. Ball :
40 dozen Sleeping Suits at 12/3 suit.
Upon our instructions H. Ball delivered 25 dozen of the suits to our Factory and 15 dozen to D. Carter.
Invoiced suits to D. Carter at 16/4 suit.
- „ 27—Received from J. Morris cash equal to 10/- in the £ in full settlement of amount owing by him.
Arranged with H. Ball that he should allow discount 3½ per cent. on the amount due on January 1st, 1934, provided that he received immediate payment of £200 and an acceptance at one month dated January 27th, 1934, for the whole of the balance of the account. The transaction was duly completed.
- „ 30—Transferred to Current Account the amount standing on Deposit at the Bankers and accumulated interest, £2 10s.
- „ 31—Repaid the loan due on Mortgage. The repayment involving the payment of interest, £12 10s., less Income Tax at 5/- in the £ and costs £10 10s.
Drew cheque for cash, £84 11s. 8d.
Drew cheque for self, £100.
- „ 31—The payments by cash during the month were :

	£	s.	d.
Salaries	50	-	-
Wages	128	16	8
General Expenses	5	15	-

PART II

The following summary of accounts was obtained from the books of G. Lane on December 31st, 1933 :

	£	s.	d.
Stock, January 1st, 1933	3,000	-	-
Furniture	300	-	-
Drawings for year	1,600	-	-
Sales	25,000	-	-
Purchases	16,000	-	-
Wages	3,000	-	-
Salaries, Rent and Trade Expenses	2,465	-	-
Discounts received	300	-	-

	£	s.	d.
Discounts allowed	335	—	—
Sales Ledger Balances	6,000	—	—
Bought Ledger Balances	2,500	—	—
Cash in Hand.. .. .	50	—	—
Bank Overdraft	950	—	—

The Stock on hand on December 31st, 1933, was valued at £3,300.

Ascertain the amount of Net Profit for the year 1933, also the amount of G. Lane's capital on January 1st, 1933, and on January 1st, 1934.

(L. Ch. C., 1934.)

BUSINESS TERMS AND ABBREVIATIONS

Account Sales (A/S) = A business form sent by a trader to someone who has consigned goods to him for sale. It is arranged to show the quantity received, the articles sold, and the various charges.

a.a.r.—Against all risks (insured). This means that all risks are covered by the insurance policy.

A/o = Account of.

c/o = care of, carried over (Stock Exchange).

Bill of Lading.—A document acknowledging the shipment of goods and containing the terms on which they are to be carried. This document is signed by the master, and, everything being in order, it is handed to the consignor. It is not a negotiable instrument, owing to the right of "stoppage *in transitu*."

Charter Party.—A merchant may have such a large quantity of goods to ship to a certain port that it would be cheaper for him to charter (i.e. hire) a whole or part of a vessel than to pay freight on the goods to the owner of the vessel. The contract between the owner and the charterer of a vessel must be in the form of a Charter Party. This Charter contains full particulars of the vessel and of the terms of hire (which may be for a specific voyage or for a specified time).

Consign.—To transmit (goods) for sale or custody.

Consignee.—The party to whom the goods are sent or consigned.

Consignor.—One who sends (or consigns) goods to another for sale.

- 'Change.**—Exchange. This may mean, according to the context, either the Stock Exchange, where stocks and shares are dealt in, or the Royal Exchange, where intricate money transactions are carried on.
- Del Credere.**—Sometimes an agent gives a guarantee to his principal that if the people to whom he sells the goods fail to pay, he will himself make good the deficiency. For this undertaking he receives an additional commission or premium, which is called *del credere*.
- Delivery Note.**—A stamped order, issued by the owner of goods, requesting the person in charge at the docks or wharf or warehouse to deliver by endorsement the whole or part of the goods to the person or persons named on the order.
- E.E. or E. & O.E.** = errors excepted, or errors and omissions excepted. This statement in the abbreviated form is placed at the foot of invoices or accounts, and is an intimation that the merchant issuing the invoice wishes it to be understood that any errors or omissions subsequently discovered can be included without prejudice from the legal point of view. The statement has, however, no legal recognition.
- Ex-Ship, or Free Overside.**—Terms used when goods are sold on the understanding that the seller's responsibilities cease as soon as the goods have left the slings of the ship. The buyer must, therefore, provide his own barge to receive the goods.
- F.A.S.** = free alongside ship. The seller undertakes to deliver the goods alongside the ship, but the buyer must arrange for the goods to be transferred on board and pay for whatever charges—slinging, etc.—that may be incurred.
- Factors and Brokers.**—Both are agents, but the nature of the agencies varies. The factor has possession of the goods, which he sells in his own name, and can sue in a contract in his own name. A broker has not possession of the goods which he sells, but deals in the name of his principal, and is never liable on contracts unless he enters into them as principal.

CHAPTER XII

JOINT ADVENTURES

CONSIGNMENTS, from the nature of the enterprise, are often called adventures, and frequently a form of partnership is entered into, limited to a particular speculation. This really means that two or more persons co-operate in contributing to the capital and agree to share the profits and losses in proportion to the capital contributed, or the services rendered, or on some other equitable arrangement.

Each party to the joint adventure records the transactions entered into in his own books, *as they affect him*, following the ordinary double entry principles. Later each party renders a complete statement of all these transactions to the other party or parties. All these statements will then be combined into a Joint Adventure Account. This account is very similar to a Profit and Loss Account, and, when the final result is ascertained, the profit or loss will be shared as agreed and a final settlement made by the parties to the joint adventure.

Arthur Finch entered upon a joint adventure with Edgar Hallam. The arrangement was that Hallam should supply two-thirds of the capital required, whilst Finch did all the work. Profits were to be shared equally. On April 10th Hallam gave Finch a cheque for £500, his share of the capital. On the 14th Finch bought Tea for the Joint Account from E. Shortell, £750; on the 16th he paid carriage £5 10s. and sundry expenses £6 15s. He sold the Tea as follows: On the 19th to J. Freeman, £152; on the 23rd to E. J. Walters, £623; and the balance on the 25th to A. Newton for £100. The accounts in *Finch's* books would be as follows:

Dr.		Joint Account with E. Hallam					Cr.				
1924		Fol.	£	s.	d.	1924		Fol.	£	s.	d.
Apr. 14	To E. Shortell	J21	750	-	-	Apr. 19	By J. Freeman	J22	152	-	-
" 16	" Cash (carriage) ..	CB35	5	10	-	" 23	" E. J. Walters	J26	623	-	-
" 20	" (expenses)	"	6	15	-	" 25	" A. Newton	J29	100	-	-
	" Profit transferred :										
	E. Hallam	J30	56	7	6						
	Profit & Loss A/c	"	56	7	6						
			£875	-	-				£875	-	-

JOINT ADVENTURES

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*Dr.***E. Hallam***Cr.*

1924		Fol.	£	s.	d.	1924		Fol.	£	s.	d.
Apr. 30	To Balance ..	o/d	556	7	6	Apr. 10	By Bank ..	CB18	500	-	-
						" 30	" Joint A/c ..	J30	56	7	6
			£556	7	6				£556	7	6
						Apr. 30	By Balance ..	b/d	£556	7	6

*Dr.***E. Shortell***Cr.*

			£	s.	d.	1924			£	s.	d.
						Apr. 14	By Joint Adventure with Hallam Purchases	J21	750	-	-

*Dr.***J. Freeman***Cr.*

1924			£	s.	d.						
Apr. 19	To Joint A/c ..	J22	152	-	-						

*Dr.***E. J. Walters***Cr.*

1924			£	s.	d.						
Apr. 23	To Joint A/c ..	J26	623	-	-						

*Dr.***A. Newton***Cr.*

1924			£	s.	d.						
Apr. 25	To Joint A/c ..	J29	100	-	-						

*Dr.***Cash Book***Cr.*

1924			£	s.	d.	1924			£	s.	d.
Apr. 10	To Hallam, E. ..		500	-	-	Apr. 16	By Joint A/c with Hallam : Carriage .. Expenses	5	5	10	-
									6	10	-

Notice that half the profit has been transferred to Hallam ; the other half will be transferred to Finch's Profit and Loss Account. Hallam's account now shows the amount due to him (the capital he subscribed and his share of profit) and this will be settled in due course with the other personal accounts.

EXERCISE 84

James Green and Henry White entered into a joint adventure for the sale of motor-cycles in Montreal. Green paid the following costs and charges :

80 Motor-cycles	£1,600
Freight	280
Insurance	160
Sundries	30

It was agreed between the parties that any profit or loss on the venture should be divided in the proportion of two-thirds to Green and one-third to White, and that Green should receive a commission of 5% on the amount for which the goods were sold. White handed to Green a cheque for £1,000. Later an Account Sales from X & Co., Montreal agents, was received showing that the goods were sold for £2,700 and that their charges amounted to £126 and commission 5%. X & Co. sent sight draft in settlement.

Make the entries recording the above in James Green's books, and set out the Joint Adventure Account and White's personal account.

EXERCISE 85

Alan Simpson and Bertram Thomkin entered into a joint adventure for the sale of property comprising several blocks of houses. From the following details prepare the books of (i) Alan Simpson and (ii) Bertram Thomkin.

On January 1st, Simpson provided capital £8,000 and it was agreed that he would have interest @ 5% per annum until the date of repayment and one-third of the profit. Thomkin bought property which cost £3,500. Expenses involved £80. He sold one lot to Charles Unwin for £750 and received a cheque at once. Advertising and expenses to date £20. The remainder of the property was sold by auction and realised £8,600. Auctioneer's commission 4%, expenses £45. A cheque was received for the net amount due and the whole deal completed with settlement between the joint adventurers on April 30.

EXERCISE 86

February 4th. Received the following letter :

December 20th, 19—.

DEAR SIRs,

Herewith I hand you invoice of shells shipped, as arranged, for sale on joint account of your firm and myself, and I have drawn on you for amount at four months' sight through the Chartered Bank. Freight and insurance forward.

Yours truly,

W. A. SIMS.

Enclosure in foregoing.

INVOICE of 159 cases of shells shipped by the undersigned per s.s. *Ajax*, Capt. Rogers, and consigned to Messrs. Burt & Co. for sale on joint account of them and W. A. Sims.

		£	s.	d.
W. A. S.—301—362.	62 cases pearl shells, 315 cwt., at 6/8	105	—	—
W. A. S.—363—397.	34 cases cameo shells, 204 cwt., at 5/-	51	—	—
W. A. S.—398.	1 case turbo, 7 cwt., at 7/- ..	2	9	—
W. A. S.—399—439.	40 cases fancies, 164 cwt., at 8/-	65	12	—
W. A. S.—440—481.	22 cases museum specimens, value	75	—	—
		<u>£299</u>	<u>1</u>	<u>—</u>
Feb. 4—Accepted Sims's bill, presented by Chartered Bank (No. 319)		£	s.	d.
„ 4—Paid Chartered Bank, by cheque, for freight, etc., of shells		299	1	—
			93	7 6
Mar. 1—Retired Sims's bill (No. 319) and obtained documents for Sim's consignment :		£	s.	d.
	Cheque to Chartered Bank	297	11	2
	Discount	1	9	10
„ 10—Sold at public auction, by Watts & Co., part of Sims's consignment, viz. pearl shells :				
	51 cases, 255 cwt., at 14/-	178	10	—
	10 „ 54 cwt., at 12/-	32	8	—
	1 case, 6 cwt., at 7/-	2	2	—
	Cameo shells :			
	34 cases, 204 cwt., at 8/-	81	12	—
	1 case turbo, 7 cwt., at 6/-	2	2	—
	40 cases fancies, 164 cwt., at 8/6	69	14	—
		<u>£366</u>	<u>8</u>	<u>—</u>
	Auctioneer's commission, £9 3s. 2d.			

	£	s.	d.
Mar. 17—Received of Watts & Co. by cheque . .	357	4	10
„ 20—Sold, for cash, part of 22 cases museum shells to S. Stone for	35	-	-
„ 24—Paid city scavenger for taking away remainder of museum shells from Sims, which are worthless		7	6
„ 26—Sent account sales of shells, per <i>Ajax</i> , to W. A. Sims. Our commission, £9 16s. 1d.			

Record the above in Journal and Cash Book, and show the Joint Account in the Ledger.

(Civil Service, Second Division Clerks.)

EXERCISE 87

John May and Henry Day engaged in a joint adventure. John May financed and managed the affair and received an extra 10 per cent. of the net profit for his trouble. The transactions were as follows: Goods purchased, £1,000; carriage, £5; insurance, £30; freight, £50. The net proceeds amounted to £1,285. Make out the proper account in the Ledger.

(N.U.T., Inter., 1921.)

BUSINESS TERMS AND ABBREVIATIONS

Jettison.—The act of throwing overboard part of the cargo of a ship or the cutting away of any part of the vessel itself for the purpose of preserving the rest. This occurs where it is necessary to lighten the craft to enable her to weather a storm.

Joint Account (J/A).—Sometimes two or more firms agree to trade jointly in a particular class of goods in which they both deal and to keep a record so that the profits or losses made are divided in agreed proportions.

Open A/c.—An account which is not settled.

Options.—A term used where a person agrees to pay a certain percentage or so much per share, and in return is given the option to buy or sell stocks or shares on a certain day at a fixed price. In this way liability is limited to a definite amount. When the option confers the right to buy, it is called a “call”; when it relates to the right to sell, it is termed a “put”; when both buying and selling

rights are granted, it is called a "put and call," or a "straddle."

Original Bill.—A term used in the money market denoting that a bill has been drawn and sold before it has been endorsed. Such bills have only the credit of the drawer behind them.

Slump.—A heavy fall in prices.

Tare.—The weight of a receptacle for goods, such as a truck, wagon, or a crate. By weighing the crate containing the goods and deducting the tare from the gross weight (crate and goods), the net weight is ascertained.

Tale Quale.—A term used in connection with contracts in the grain trade when grain and other produce is sold before the ship conveying the goods is due to arrive. The expression means that the goods are the same as the sample which has been submitted for inspection; it also implies that the buyer, and not the seller, is responsible for any damage sustained during transit. The sample is, as a rule, drawn at a port at which the ship has touched during the voyage.

Loose-Leaf Ledger Accounts.—Although in most businesses book-keeping records are made in books, there is a growing number of firms in which *records are made in accordance with double entry principles* on cards or loose leaves.

The sheets or cards are ruled in customary ledger form or any other form that might be more suitable for the special requirements of the users, a separate card or leaf being used for each account. Precautions are taken to ensure the reliability of the records. Binders or trays containing the leaves or cards are, as a rule, equipped with patent locks, and the keys retained by someone in authority. The advantages of loose-leaf ledgers are:

- (1) Only live accounts are kept.
- (2) No index is necessary, as the cards or leaves may be arranged in alphabetical order.
- (8) Subdivisions may be easily made in order to allot the work of recording to different persons.

CHAPTER XIII

TABULAR BOOK-KEEPING

SIMPLE forms of tabular books have been used already for the Cash Book and the Petty Cash Book. It is now possible to continue this study. The importance of the intelligent use of columns in book-keeping cannot be over emphasised.

One of the objects of keeping correct records is to furnish those responsible for the management of the business with facts which will be of value in regulating the policy of the company and deciding upon the details of its conduct. Let us consider the case of a trading enterprise dealing with various classes of goods, and it will not be long before we discover that the profit obtained from one class may be greater than another. In a grocery business, the sales of which largely consist of tea, sugar, and coffee and similar merchandise, it would be a very big task indeed to arrive at the exact or even the approximate profit made on each commodity if the Purchases and Sales Books and Accounts were kept in the simple form explained in Chapter II. Similarly, in businesses consisting of various departments, if all purchases and sales of the business were massed together, it would be very difficult, if not impossible, to be certain how much profit each department was producing. If the books of the concern are properly systematised, it is possible for a trader to ascertain without difficulty those departments that are remunerative and those that are not. In addition, the detection of errors is localised.

Columns are ruled in the Purchases and Sales Books, so that each class of goods is kept separate, thus :

Columnar Purchases Book

Date.	Seller's Name. (A/c to be credited)	L/F	Total.			Tea.			Coffee.			Sugar.		
			£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.

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Fol. 80

Date.			L/F	Total.			Tea.			Sugar.			Coffee.		
1886				£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
Feb. 7	Charles Wilson	..	1	106	18	4	100	-	-	2	6	8	4	11	8
" 7	Joseph Fox	..	2	59	10	-	50	-	-	4	10	-	5	-	-
				166	8	4	150	-	-	6	16	8	9	11	8
										L/F 3	L/F 4	L/F 5			

Fol. 1. *Cr.*

	1936		P.B.	£	s.	d.
	Feb. 7	By Sundries ..	80	106	18	4

Fol. 2. *Cr.*

			P.B.	£	s.	d.
1936 Feb. 7	By Sundries ..	80	69	10	--	

Fol. 3. *Cr.*

1936 Feb. 7	To Sundry Creditors	P.B. 80	£ 150	s. -	d. -
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<i>Dr.</i>		Sugar Account				<i>Fol. 4. Cr.</i>			
1936		P.B.	£	s.	d.				
Feb. 7	To Sundry Creditors	80	6	16	8				

<i>Dr.</i>		Coffee Account				<i>Fol. 5. Cr.</i>			
1936		P.B.	£	s.	d.				
Feb. 7	To Sundry Creditors	80	9	11	8				

When expenses are incurred exclusively in connection with a particular article, the account which deals with that article is debited. If carriage on tea costs 5s., this amount is charged against the Tea A/c and not against the general carriage expenses of the business.

But it would be much better to have a Purchases Account in the Ledger with columns for each class of commodity in which the business deals. In this case the Purchases Account would appear as on page 191.

EXERCISE 88

Enter the following transactions in a Tabular Purchases Book, post to the Ledger, using a tabular Purchases Account :

1923

- Feb. 18—Bought of Alfred Hall, cigarettes £50, tobacco £32, cigars £100.
 „ 19—Bought of Thomas Jones, tobacco £40, cigars £92, cigarettes £30.
 „ 19—Bought of Robert Baxter, cigars £36.
 „ 20—Bought of Edward Hirst, 5 dozen "Freeflow" pipes @ 2/6 each.
 „ 21—Bought of Keith Jackson, cigars £96.
 „ 22—Bought of Cyril Baldry, 2 dozen pipes @ 4/- each.
 „ 23—Bought of Fraser Wilson, cigarettes £48.

The other subsidiary books would be ruled in the same way as the Tabular Purchases Book.

The principles of double entry are not violated in the slightest way by tabular book-keeping. The method is used to adapt accounts to fit the special requirements of particular businesses instead of using the ordinary scheme of ledgers, journals, and cash books. Generally, when it is desirable to use the tabular method greater clearness and considerable labour-

Cr.

Purchases Account

Dr.

	Fol.	Total.	Tea.	Sugar.	Coffee.	Fol.	Total.	Tea.	Sugar.	Coffee.
1924		£ s. d.	£ s. d.	£ s. d.	£ s. d.		£ s. d.	£ s. d.	£ s. d.	£ s. d.
Feb. 7	80	166 8 4	150 - -	6 16 8	9 11 8					
To Sundry Creditors										

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saving are the results. The usual form of cash book may be, and frequently is, adapted for use in conjunction with a tabular ledger; and a tabular purchases book can be used in conjunction with the ordinary ledger form.

Carefully note the examples of Sales Book and Cash Book shown on page 193.

Posting follows the ordinary rules. From the Sales Book the personal accounts will be debited with the amounts shown in the Totals Column opposite the names; the totals of the columns will be credited in the Sales Account. The ruling of the ledger for the Sales Account will be the same as that shown on page 191, the columns being appropriately headed Totals: Dept. A, Dept. B, Dept. C.

In the Cash Book the columns headed Dept. A, Dept. B, and Dept. C are analysis columns. The Discount, Cash, and Bank columns are used in the normal way. Posting: credit the personal accounts with the amounts opposite the names and credit the Sales Account with the totals of the Analysis columns whenever they are ruled off and added. The total of the Discount column when ruled off will be posted to the debit of Discount Account in the usual way. The Cash and Bank columns themselves are the debit sides of the Cash and Bank Accounts, therefore the double entries are complete. The credit side of the Cash Book will be treated similarly.

EXERCISE 89

F. Hope keeps his books by tabular methods. Enter the following transactions in the appropriate books and post to the Ledger, using tabular book-keeping where possible.

On January 1st, 1936, the position of the business was as follows: Cash in hand, £15; at Bank, £850; Stock—A Dept., £600; B, £550; C, £400; Debtors: R. Cole, £45; J. Morton, £80; M. Richards, £100. Creditors: H. Dunn, £200; S. Jordan, £100. Find the capital.

1936						£	s.	d.	£	s.	d.
Jan.	2	Sold Goods to R. Cole									
		From Department A				..	..	30	-	-	
		"	"	B		..	..	40	-	-	
										70	-
		Sold to M. Richards									
		From Department A				..	..	10	-	-	
		"	"	B		..	..	60	-	-	
		"	"	C		..	..	20	-	-	
										90	-

SALES BOOK

1929	L.F.	Totals.	Dept. A.	Dept. B.	Dept. C.
		£ s. d.	£ s. d.	£ s. d.	£ s. d.
Jan. 1		85 11 11	46 4 5	39 7 6	— — —
J. Smithson & Son	..	164 2 7	124 15 5	— — —	39 7 2
D. Myers	173 15 8	16 5 11	38 7 4	119 2 5
S. Benson, Ltd.	..	116 13 8	— — —	116 13 8	— — —
F. White & Co.	..	299 5 6	— — —	211 9 2	87 16 4
Anderson Bros.	..	839 9 4	187 5 9	405 17 8	246 5 11

Purchases and Returns Books are set out in the same way as the Sales Book.

CASH BOOK

Dr.	1929	L.F.	Discount.	Cash.	Bank.	Dept. A.	Dept. B.	Dept. C.
			£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
Jan. 1	To Balances	..	— — —	10 0 0	793 6 0	— — —	— — —	— — —
	" L. Bright & Co.	..	10 0 0	— — —	190 0 0	— — —	— — —	— — —
	" Sales	..	— — —	241 17 5	— — —	72 4 6	112 8 9	57 4 2
	" Bank	..	— — —	— — —	250 0 0	— — —	— — —	— — —
2	" S. Benson, Ltd.	..	2 10 0	97 10 0	— — —	— — —	— — —	— — —
	" D. Myers..	..	— — —	34 2 6	— — —	— — —	— — —	— — —
	" Sales	..	— — —	228 18 8	— — —	98 2 11	57 2 5	73 13 4
	" Bank	..	— — —	— — —	360 0 0	— — —	— — —	— — —

The credit side of the Cash Book is set out in the same way as the debit.

1936		£	s.	d.	£	s.	d.
Jan.	3—Paid H. Dunn by cheque his account less 5% Discount. Received cheque from J. Morton for £76 in full settlement of his account. Paid cheque into Bank. Drew cheque from Bank				80	—	—
„	5—Paid Trade Expenses Paid Wages				20	—	—
„	7—Purchased from S. Jordan goods for the following departments : Department A „ B „ C	140	—	—			
		30	—	—			
		80	—	—			
					250	—	—
„	8—Paid S. Jordan by cheque, £95 ; Discount, £5. Cash Sales which were paid into Bank Department A „ B „ C	200	—	—			
		150	—	—			
		75	—	—			
					425	—	—
„	9—Bought from H. Watson & Sons For Department A „ B „ C	50	—	—			
		25	—	—			
		75	—	—			
					150	—	—
„	10—Bought Job Lines by cheque For Department A „ B „ C	200	—	—			
		180	—	—			
		40	—	—			
					420	—	—
„	11—Cash Sales lodged in Bank Department A „ B „ C	120	—	—			
		60	—	—			
		100	—	—			
					280	—	—
	Sold to R. Cole from Department A				120	—	—
„	14—Received from M. Richards cheque for Allowed Discount, £2 10s. R. Cole sent cheque for £50 on account.				97	10	—
„	16—Bought from H. Dunn For Department A „ C	200	—	—			
		150	—	—			
					350	—	—

Extract a Trial Balance.

EXERCISE 90

Using the accounts and books prepared for the previous exercise, record the following transactions and post to the Ledger. Extract a Trial Balance.

1936

Jan. 19—Paid wages £50, and trade expenses £20.

Purchased from S. Jordan goods for the following departments :

Department A	..	..	..	..	£80	
„ B	..	..	..	..	20	£100
						<hr/>

Cash Sales—paid into Bank :

Department A	..	..	..	..	£120	
„ B	..	..	..	..	90	
„ C	..	..	..	..	40	£250
						<hr/>

„ 20—Returned goods to S. Jordan as follows :

Department A	..	..	..	..	£10	
„ B	..	..	..	..	5	£15
						<hr/>

Purchased by cheque goods for :

Department B	..	..	..	..	£110	
„ C	..	..	..	..	70	£180
						<hr/>

Cash Sales paid into Bank :

Department A	..	..	..	..	£130	
„ B	..	..	..	..	90	
„ C	..	..	..	..	80	£300
						<hr/>

„ 21—Paid Jordan amount, due less 5% discount.

Sold goods to M. Richards :

Department A	..	..	..	..	£150	
„ C	..	..	..	..	90	£240

Tabular columns can be used in the Final Accounts. In this event only expenses and gains that are apportioned to the departments or classes of goods can be used. Usually it is quite easy to prepare a Trading Account of tabular form, but the Profit and Loss Account is usually on simple lines. The ruling for the Ledger or sheet on which the Trading Account will be prepared will be the same as on page 196. The gross profit or gross loss on each department can be ascertained. There may be a profit in one case and a loss in another.

Here is an example :

Trading Account for one year ended December 31st, 1935

Cr.

Dr.

	Fol.	Total.	Tea.	Sugar.	Coffee.
	£	£	£	£	£
To Stock 1/1/35	400	200	100		100
" Purchases *	7,600	3,800	2,000	3,000	2,000
" Wages	660	300	200	200	10
" Carriage in-wards	50	30	10		
" Warehouse charges	60	30	20		
" Gross Profit c/d to P. & L. A/c	1,910	1,040	870		
	10,680	5,400	3,200	2,080	
			10,680	5,400	2,080
By Sales *			10,000	5,000	
" Stock			610	400	
" Gross Loss c/d to P. & L. A/c			70		70

Profit and Loss Account

Cr.

Dr.

	£	£
To Gross Loss on Coffee b/d from Trading A/c	70	
By Gross Profit on :		
Tea	1,040	
Sugar	870	
b/d from P. & L. A/c		1,910

* The returns are deducted and the net figures used.

EXERCISE 91

Prepare the Final Accounts and Balance Sheet from the details available in Exercise 90. Note the following :

Stock at January 21st, 1936, was valued as follows : Dept. A, £700 ; Dept. B, £600 ; Dept. C, £200.

Wages to be apportioned as follows : Dept. A, £50 ; Dept. B, £30 ; Dept. C, £20.

Criticism of the Tabular Method

The following points can be put forward against the adoption of the tabular method :

- (1) The inclusion of so many columns for classification and analysis causes the books to be of unwieldy dimensions and the cost of such books is heavy.
- (2) Additional clerical work is involved in recording details.
- (3) There is always a danger of items being entered in the wrong columns. Where errors of this kind occur in the Purchases, Sales, or Returns Books the postings to the ledger accounts of the persons concerned would not be incorrect, and therefore the errors are not easily traceable.
- (4) The absence of detailed information is less serious than wrong information.

Advantages of the Tabular Method

The advantages of tabular book-keeping briefly stated are :

- (1) The trading results of each department, or each commodity, can be accurately ascertained without further analysis of the records.
- (2) Separate records enable comparisons of results to be made and waste or loss may be avoided.
- (3) If one department or one commodity is causing a loss this state of affairs is revealed, whereas if analysis had to be made in the ordinary way the delinquent department or unprofitable commodity might easily pass undetected for a time, especially when other departments are prospering and other commodities are making good profits. Where the tabular method is not employed there is always the danger that, in circumstances like these, analyses will not be made at all. The cause of the loss on a particular commodity

PURCHASES AND EXPENSES JOURNAL

Date.	NAME.	Inv. No.	L.F.	Amount of Invoice Totals.	PURCHASES.			CHARGES.				
					Cigars.	Cigarettes.	Tobacco.	Lighting and Heating.	Rates and Taxes.	Interest.	Insurance.	Repairs.
1936				£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
Jan. 2	J. Munro ..	..	..	23 0 0	—	4 15 0	18 5 0	—	—	—	—	—
3	H. Thompson ..	..	..	10 0 0	—	—	—	—	10 0 0	—	—	—
3	Sun Insurance ..	..	..	14 0 0	—	—	—	—	—	14 0 0	—	—
4	General Electric Co. . .	..	..	3 10 6	—	—	—	3 10 6	—	—	—	—
7	Corporation (Rates) ..	..	..	17 10 0	—	—	—	—	17 10 0	—	—	—
8	B. Johnson ..	..	..	15 0 0	5 10 0	9 10 0	0	—	—	—	—	—
8	P. Lumber & Son ..	..	..	3 15 0	—	—	—	—	—	—	—	3 15 0

Figures in column headed "Totals" are posted to Cr. of Personal A/cs.
 Totals of detail columns are Debited to Impersonal A/cs concerned.
 Total of Totals column is used as a check on the totals of other columns.

may be that it is being sold too cheaply, and thus we may say that the tabular method greatly facilitates the fixing of prices.

The tabular method is sometimes extended to include such items as rates, electricity, gas, income-tax, telephone accounts—all of which may be included in a tabular Day Book, or Purchases and Expenses Journal. When this method is adopted the tabulation is divided into two main sections—Purchases and Charges. Each of these sections is further subdivided according to the details of the business. A wholesale tobacconist may have his Purchases divided into Cigars, Cigarettes, and Tobacco, and his Charges into Heating and Lighting, Rates and Taxes, Interest, Insurance, Repairs, and so on. The posting of a book of this type is no more difficult than the posting of the ordinary Day Book. Each item is credited to the account of the person concerned, and the totals of the various columns are debited to the impersonal accounts indicated by the headings of the columns. See example on page 198.

A Journal of this nature is very useful. All accounts received by a firm showing amounts owing either for goods purchased or expenses incurred can be recorded in such a book. Usually the accounts will be numbered consecutively and the numbers entered in the Purchases and Expenses Journal, thus affording a ready check so that none will be omitted.

EXERCISE 92

Suitably rule a Purchases and Expenses Journal and copy page 198. Post to the Ledger and extract a Trial Balance.

EXERCISE 93

Carefully study the Ledger or Ledgers of the previous exercise. Be quite sure that you understand what information each account intended to give. Then complete the exercise by recording the following transactions :

1936				£	s.	d.
Jan. 9—Paid Sun Insurance	..	..	..	14	—	—
„ General Electric Co.	..	..	..	3	10	6
„ Corporation (Rates)	..	..	..	17	10	—

All payments by cheque.

Post to the Ledger and again very carefully examine the Ledger and understand the final position the accounts show.

Goods on Sale or Return

When it is desired to make a permanent record of goods sold on "Sale or Return," or "On Approval," a book similar to the one given on page 201 can be used.

The columns in the above book will vary according to the business, and will be as numerous as desired, or as simple as the business warrants. The principle is the same.

All the goods sent to customers on "sale or return" will be invoiced either in the ordinary way, or on special invoice forms. Copies of the invoices will be handed to the book-keeper, who will record them in the *Sales or Returns Journal*, placing the amount of the invoices in column 1. Usually, such goods must be returned within a few days, otherwise they are charged to the customer's account. If the goods are returned, details will be recorded in column 2, and there the matter will end. If the goods are sold, or they are not returned within a reasonable time, column 1 will be extended to column 3. Column 3 will be posted in the same way as any Sales Book is posted by debiting personal accounts and periodically crediting the total in the Sales Account. From a book of the type shown on page 201 it is usually possible to see at a glance what goods are still in the hands of the customers, but whenever desired, columns 2 and 3 can be cast and subtracted from column 1, to ascertain the amount of goods still out on "sale or return." It will be necessary to do this at the end of the financial year. The figure ascertained will represent part of the firm's stock, and will consequently be treated as such in preparing the Final Accounts and Balance Sheet, i.e. Credit Trading Account, and included in the Balance Sheet as an asset. It must be remembered, however, that the figure represents the stock of goods out "on sale or return" at *selling price*. Because stock is valued at cost or current market price (whichever is the lower) the amount must be reduced accordingly. If this is not done, the firm is in fact taking profit into account on goods that may not be sold.

Columnar Books to meet particular Conditions

Where a business has a large number of personal accounts similar, or, it may be, identical in form, a ledger, suitably ruled to conform to the nature of the records required, can be used. Hotel records might form an example. Time and

"SALE OR RETURN" JOURNAL

(1) (2) (3)

Date.	Customer.	Goods sent on Sale or Return.				Goods returned.				Led. Fol.	Goods sold.			
		Total.	Dept. A.	Dept. B.	Dept. C.	Total.	Dept. A.	Dept. B.	Dept. C.		Total.	Dept. A.	Dept. B.	Dept. C.
1936		£	£	£	£	£	£	£	£	✓	£	£	£	£
Jan. 1	Jones & Co., Ltd. . .	120	90	30		120	90	30			1	20		20
	Wilson, H. P. . .	20			20						2	30	30	
	Brownlee & Sons . .	60	20	30	10	30	20		10		3	160	40	20
" 2	Leader, J. . .	160	40	100	20						4	70		70
	Jones & Co., Ltd. . .	70			70									
	Shuttleworth, A. . .	145	115	20	10									

Notes.—Post column (3) details to debit of Personal Accounts. Post totals of column (3) to credit of Sales Account. Examination of the Ledger Folio column will indicate that only one transaction remains unsettled. Columns (2) and (3) should be added, and subtracted from column (1) to ascertain value of goods with customers on "Sale or Return."

labour are thereby saved, and the principles of double entry are fully complied with. Double entry does not mean strict adherence to a definite form of ruling. The ordinary form is generally used because it is generally most suitable. The ordinary form means that debits are placed underneath one another on the left of an account and the credits are ranged in the same way on the right side. In columnar ledgers the debit and credit items are frequently side by side on the same line across a page. Bear in mind that the double entry principles involve, not definite rulings, but arrangements which ensure that all debit items shall be classified by themselves quite clear of credit items and that the total of the debits and the total of the credits shall be visible. As a result the balance of each account can readily be obtained.

BUSINESS TERMS AND ABBREVIATIONS

Agent.—An agent is legally defined as “he who is employed to do anything in the place of another,” and the person who thus engages his services is called the principal. There are three main classes :

(1) **Special.**—Those who have authority for one specific act.

(2) **General.**—Those who have power within certain limits.

(3) **Universal.**—Those who have unlimited authority.

A universal agent may bind his principal to any agreement so long as it complies with the law of contracts ; a general agent may do the same within definite limits. The authority of a special agent is confined to the specific act for the performance of which he has been appointed.

Freight.—The amount charged by the shipowner for carrying goods.

Demurrage.—An additional payment for detention of the ship whilst loading or unloading beyond the period specified in the contract between the shipowner and the merchant.

Lay Days.—Days allowed for loading and unloading the ship.

CHAPTER XIV

CONTRACT ACCOUNTS

THE subject of contracts, from the legal standpoint, is one of wide scope and varied complication. From the book-keeping point of view, with which we are almost exclusively concerned, the keeping of records does not present much difficulty. There is nothing new in principle. The idea is very similar to a Consignment Account where a special account is opened for the purpose of ascertaining the exact result of each adventure. It is sufficient to understand that a contract is an agreement enforceable at law and that contract accounts are generally concerned with shipbuilding and repair, the construction of buildings, railways, harbours, docks, and similar work, or the manufacture or erection of machinery. When a firm undertakes to do work of this kind, it is customary to embody in the contract particulars of the class of material to be used, the price, the conditions governing payment, and other relevant matters. As a rule, the signing of such a contract renders the contractor liable to certain stated penalties if he fails to carry out the terms of the contract.

From the contractor's standpoint, it is necessary to keep separate records of each contract to which he is a party. These records enable him to ascertain the financial result of each contract, and, of course, the records form a useful guide for future estimates. The nature of the undertaking, its financial importance, and the number of similar contracts entered into are factors determining the method by which the records are to be kept. Generally speaking, the form is as described in the following paragraphs :

The Purchases Day Book and the Sales Day Book are kept in tabular form, and in each book a column is allotted for each contract. If materials are bought for a specified contract, they are entered in the appropriate column of the Purchases Day Book, and, when passed to the contract, a corresponding entry is made in the Sales Day Book. The same form of record

may be used when the materials purchased are delivered direct to the contract and not taken into stock.

The price will be the same in both books provided no charge is made for general overhead expenses. Except in those cases where the number of transactions is large, no change in the form of the other subsidiary books is necessary. It is, however, important that all receipts and expenditure on account of each contract should be so recorded that relationship to the contracts is easily identified. An example of a Sales Day Book is shown on page 205.

When posting this Sales Day Book, the totals of each column, except the *Totals* and *Sales* columns, are debited to appropriate accounts. The items in the *Sales* column are separately debited to the personal accounts, and the grand total of the Totals column is credited to *Sales* or *Materials Accounts*.

In the Ledger, open two accounts for each contract—a Contract Account and a Proprietor's Account. The Contract Account is a nominal account and records, on the debit side, the expenditure on materials, wages, and other expenses on the contract. On the credit side, *but not until the contract is completed*, the contract price is entered. The Proprietor's Account is a personal account and is credited with any instalments paid. On the completion of the contract, this account is debited with the contract price.

Examples of a Contract Account and a Proprietor's Account are given on page 205.

The amount expended on any contract (less instalments received) uncompleted when the final accounts are made will appear in the Balance Sheet as an asset. With regard to profits on uncompleted contracts, it is customary to adopt a conservative policy and to provide for future possible losses when estimating profit on the work done. In many cases, no profit is taken into consideration until the contract is completed. In any event, profit on part-work should not be appropriated unless it is definitely clear that the contract as a whole will show a profit.

SALES DAY BOOK

Date.	Particulars.	L.F.	Totals.	Sales.	Contract No. 1.	Contract No. 2.
1930			£ s. d.	£ s. d.	£ s. d.	£ s. d.
Jan. 1	Sundries ..	..	245 - -	245 - -	245 - -	211 - -
	500,000 Bricks	..	211 - -	187 10 -		8 - -
" 2	J. Brown ..	..	187 10 -	20 9 6		
	40 Loads Sand	..	8 - -			
	D. Smith ..	..	20 9 6			
Dr.						
CONTRACT 100						
1930			£ s. d.	By Proprietors (No. 100)...	J4	£ s. d.
Jan. 10	To Materials..	..	249 6 -			780 - -
" 18	" Cash (Wages)	..	131 62 5 -			
" 27	" Cash (Wages)	..	172 58 10 -			
Feb. 1	" Materials..	..	SDB 45 169 12 -			
" 3	" Wages ..	..	201 27 14 -			
" 10	" Cash (Legal Expenses) ..	..	204 15 2 8			
	" Profit ..	..	197 10 4			
			2780 - -			£780 - -
Dr.						
PROPRIETOR'S A/C.—CONTRACT 100						
1930			£ s. d.	1930		£ s. d.
Feb. 12	To Contract 100 ..	..	780 - -	Jan. 21 By Cash ..	152	300 - -
				Feb. 28 " Cash ..	296	480 - -
			£780 - -			£780 - -

EXERCISE 94

[See Notes at end of Exercise]

On January 1st, 1921, the affairs of Robert Robinson, contractor, stood as below :

Cash at Bank, £2,400 ; goods on hand, £3,600 ; freehold premises, £9,600 ; plant and machinery, £7,200 ; Bills Receivable—No. 1, £240, No. 2, £360. Expenditure on current contracts : No. 10, £1,440 ; No. 11, £1,200. Debtors : John Barton, £420 ; James Bredon, £480. Creditors : bills payable—No. 7, £300, No. 8, £420 ; instalments received on current contracts—No. 10, £960 ; No. 11, £720 ; Henry Parkes, £324 ; Hugh Peachey, £396.

His transactions for the month are given below. You are requested to enter them in the books, post them to the Ledger, balance the accounts, and make out a Trial Balance, Profit and Loss Account, and Balance Sheet.

N.B.—Pass all cheques through the Bank same day.

1921		£	s.	d.
Jan.	1—Bill Receivable No. 1 met at the Bank ..	240	—	—
"	1—Drew cheque for office cash ..	60	—	—
"	3—Materials supplied—Contract 10 ..	546	12	—
"	3— " " —Contract 11 ..	380	15	—
"	4—Signed Contract 12 for £2,400.			
"	4—Purchases from Henry Parkes ..	600	—	—
"	5—Received cheque from John Barton ..	409	16	8
"	Discount in addition ..	10	3	4
"	6—Gave Henry Parkes cheque ..	162	—	—
"	And acceptance at two months ..	162	—	—
"	7—Watson & Co. retired their acceptance No. 2 under rebate with cheque for ..	358	—	—
"	7—Sales to John Barton ..	234	5	6
"	8—Paid wages—Contract 10—cheque ..	320	10	6
"	8— " " —Contract 11—cheque ..	228	15	—
"	10—The Bank paid our acceptance No. 7 ..	300	—	—
"	10—Paid Hugh Peachey, cheque ..	391	12	6
"	Discount in addition ..	4	7	6
"	11—Received James Bredon's cheque ..	250	—	—
"	And acceptance at one month ..	230	—	—
"	12—Drew cheque for Henry Parkes ..	585	—	—
"	Discount in addition ..	15	—	—
"	13—Bank retired our acceptance No. 8 under rebate for ..	415	17	6
"	13—Drew cheque for cost of additional machinery ..	456	—	—
"	13—Sold some old machinery for cheque ..	60	—	—

CONTRACT ACCOUNTS

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1921	£	s.	d.
Jan. 14—James Bredon's cheque returned dishonoured	250	-	-
„ 14—Henry Parkes sold us goods	567	8	9
„ 15—Paid yard wages—office cash	20	10	6
„ 17—Materials supplied—Contract 10	456	10	-
„ 17— „ —Contract 11	498	5	-
„ 17— „ —Contract 12	316	-	-
„ 18—Received James Bredon's promissory note due 25th	250	-	-
„ 19—Received cheque from Contract 10	960	-	-
„ 19— „ — „ from Contract 11	720	-	-
„ 20—Sales to James Bredon	345	6	7
„ 20—Cleaning offices—office cash	2	14	10
„ 21—Wages—Contract 10—cheque	252	7	6
„ 21— „ —Contract 11—cheque	222	5	-
„ 22—Fares—office cash	3	6	8
„ 22—Purchases from Hugh Peachey	678	9	10
„ 24—Contract 10 completed and passed—final instalment—cheque	1,600	-	-
„ 25—Gave our acceptance for new warehouse	500	-	-
„ 25—James Bredon's note duly met at Bank.			
„ 26—Contract 11 completed, balance due £1,400, received cheque for £1,000, remainder being held until contract is passed.			
„ 27—Wages—Contract 12—cheque	60	7	6
„ 27— „ —yard—office cash	21	15	-
„ 28—Robert Robinson's drawings, cheque	60	-	-
„ 29—Salaries, cheque	100	-	-
„ 31—Interest on capital	135	-	-
„ 31—Depreciation of premises	16	-	-
„ 31— „ of plant and machinery	60	-	-
„ 31—Stock of materials	2,807	4	10

(N.U.T., Inter., 1921.)

NOTES ON EXERCISE

Opening Entries : “ Expenditure on Current Contracts ”—Debit balances in Contract Accounts. “ Instalments received on Current Contracts ”—Credit balances in Proprietors' Accounts. As the names of the firms with whom the contracts have been made are not given, the personal accounts in connection with the contracts should be headed, “ Proprietor's A/c—Contract No. ”

Jan. 24.—When a contract is entered into the contract price is fixed, but it frequently happens in exercises that the price is not given and the student is required to ascertain it from other information. In this particular instance, with the final instal-

ment the value of the contract can be ascertained by adding all the instalments. When this figure has been found debit it in the Proprietor's A/c, Contract No. 11, and credit it in the Contract No. 11 account. In the event of the final instalment being given, but not paid, the total amount received plus the amount outstanding is the contract price.

Jan. 25.—“Gave our acceptance for new warehouse.” As the name of the drawer of the bill has not been given, it will be reasonable to post this transaction direct from the Bills Payable Book to the debit of Warehouse Account.

EXERCISE 95

Enter the following transactions in the appropriate books, post, extract a Trial Balance, Trading and Profit and Loss Accounts and a Balance Sheet, as on March 31st, 1936.

1936

- Jan. 1—James Sanderson commenced business as a builder by drawing from his private banking $\frac{1}{2}$ £1,000 as capital. Paid this into an $\frac{1}{2}$ opened with the Midland Bank.
- „ 1—Obtained contract to build a house for Wm. Hobson for £2,200, and a bungalow for Mrs. Hudson for £560.
- „ 2—Purchased material for Hobson's contract for £120 10s. 6d., and Hudson's contract £40 13s. 4d., in both cases from The New Brick Co. Paid for these by cheque, being allowed 5% discount.
- „ Paid quarter's rent of office, £20.
- „ 3—Received cheque from Hobson for £500, and from Hudson, £100. Paid into bank.
- „ Purchased sundry tools by cheque, £30. Purchased further supplies of material from The New Brick Co., £320 10s. 6d. Dispatched part of this to Hudson's site (amounting to £60 12s. 6d.), and part to Hobson's address, £20 13s.
- „ 8—Paid wages, £50 (having cashed cheque for £80), and self in cash, £10. Sundry Exs., £2 10s. 6d.
- „ 14—Timber for Hobson's contract bought from Jones & Co., cost £75. Hobson required additional timbering to house and agreed to do this for an additional £80.
- „ Paid wages, £50. Draw cheque for cash required.
- „ 21—Cashed cheque for £100 and paid wages, £50, and self, £10. Paid for sundry expenses in connection with contracts—Hobson, £20 10s. 4d., and Hudson, £9 16s. 2d.
- „ 28—Paid wages, £50, having drawn cheque for balance required.
- Feb. 4—Bought material for Hobson's house, £126 10s. 3d.
- „ Drew cheque for wages, £50.
- „ 11— „ „ £50.
- „ 18—Paid by cheque for sundry expenses in connection with contracts—Hudson, £13 12s. 4d., and Hobson, £3 12s. 3d.

1936

- Feb. 25—Paid wages, £50. Cheque drawn for £100.
- Mar. 4—Paid wages, £50, and drew cheque for self, £10.
- „ 11—Received cheques from Hudson, £300, and Hobson, £1,000.
 Bought material from Alex. Windham & Co., £960 12s. 3d.
 Dispatched some of this to Hobson's site, £509 13s. 3d., and to
 Hudson's site, £161 13s. 4d.
- „ 18—Drew cheque for £100 and paid wages, £50, and sundry expenses
 Hobson's contract, £30 2s. 6d., and Hudson, £14 12s. 3d.
 Hudson's bungalow finished and balance due received and
 paid to bank.
- „ 25—Drew cheque for wages, £50, and self, £10.
 Apportion four-fifths of wages to Hobson's contract and one-
 fifth to Hudson. Stock of material on hand valued at
 £528 10s. 8d.

CHAPTER XV

SELF-BALANCING LEDGERS

PROBABLY it will be quite safe to assume that students who have arrived at this stage will have found occasionally that trouble has arisen in making the Trial Balance agree, and, if this be so in the case of the limited number of transactions of which each of the exercises is composed, it will not be difficult for anyone to understand that if the correctness of the postings in the accounts of a large store were dependent entirely upon this process, without any system of localising errors, the Trial Balance would be unwieldy to a degree and too lengthy to contemplate. To cope with this problem, a system of self-balancing Ledgers is introduced, by means of which the various sections of the Ledger are balanced by aggregate accounts.

The central idea is that each Ledger should contain the material for a Trial Balance within its own covers, and this is rendered possible by the introduction of Adjustment Accounts.

Let us assume that a business has three Ledgers, Debtors, Creditors, and General, and that the Debtors' and Creditors' Ledgers are self-balancing. This means that in each Ledger there is an Adjustment Account which contains in summarised form all the entries entered into the accounts in the Ledger. For example "A's" Debtors' Ledger is as follows :

DEBTORS' LEDGER

<i>Dr.</i>			A. Allen			<i>Cr.</i>		
To Balance ..	£	s. d.	100	-	-	By Cash ..	£	s. d.
„ Goods ..			50	-	-	„ Discount ..	5	-
„ Do. ..			30	-	-	„ Returns ..	10	-
						„ Balance ..	70	-
			180	-	-		180	-

<i>Dr.</i>			B. Benson			<i>Cr.</i>		
To Balance ..	£	s. d.	80	-	-	By Bill Receivable	£	s. d.
„ Goods ..			170	-	-	„ Balance ..	80	-
			250	-	-		170	-
							250	-

<i>Dr.</i>			C. Charles			<i>Cr.</i>		
To Balance ..	£	s. d.	120	-	-			

SELF-BALANCING LEDGERS

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<i>Dr.</i>				<i>D. Dunn</i>				<i>Cr.</i>			
To Goods ..	£	s.	d.					By Cash ..	£	s.	d.
„ Do. ..	40	-	-					„ Balance ..	100	-	-
	150	-	-						90	-	-
	190	-	-						190	-	-

<i>Dr.</i>				<i>General Ledger Adjustment A/c</i>				<i>Cr.</i>			
To Cash and Discount ..	£	s.	d.					By Balance ..	£	s.	d.
„ Bills Receivable ..	200	-	-					„ Goods ..	300	-	-
„ Returns ..	80	-	-						440	-	-
„ Balance ..	10	-	-								
	450	-	-								
	740	-	-						740	-	-

The General Ledger Adjustment Account contains on the debit side the totals of cash received, discounts allowed, bills receivable, and returns that have been entered in detail on the credit side of the personal accounts. On the credit side, the account shows the total amount owing by debtors at the beginning of the period, and the total of the amounts that have been debited to customers for goods sold to them. A Trial Balance of this ledger may be extracted, and is as follows :

Trial Balance				Dr.			Cr.		
				£	s.	d.	£	s.	d.
A. Allen	..	..	..	70	-	-			
B. Benson	..	..	..	170	-	-			
C. Charles	..	..	..	120	-	-			
D. Dunn	..	..	..	190	-	-			
General Ledger Adjustment									
A/c	..	..	..				450	-	-
				450	-	-	450	-	-

In the General Ledger a Debtors' Ledger Adjustment A/c will appear.

<i>Dr.</i>				<i>General Ledger Debtors' Ledger Adjustment A/c</i>				<i>Cr.</i>			
To Balance ..	£	s.	d.					By Cash and Discount ..	£	s.	d.
„ Goods ..	300	-	-					„ Bills Receivable ..	200	-	-
	440	-	-					„ Returns ..	80	-	-
								„ Balance ..	10	-	-
									450	-	-
	740	-	-						740	-	-

This account contains the same entries as those shown in the General Ledger Adjustment Account, but on opposite sides. This account, in fact, completes the double entries for the additional figures that have been recorded in the books. As records cannot be entered direct into the Ledger, it is necessary to journalise these items before posting them to the two Adjustment Accounts.

Journal	Dr.			Cr.		
	£	s.	d.	£	s.	d.
General Ledger Adjustment A/c ..	200	-	-			
To Debtors' Ledger Adjustment A/c				200	-	-
(Being Cash received and discount allowed for the period ended ..)						
General Ledger Adjustment A/c ..	80	-	-			
To Debtors' Ledger Adjustment A/c				80	-	-
(Being bill received from debtors.)						
General Ledger Adjustment A/c ..	10	-	-			
To Debtors' Ledger Adjustment A/c				10	-	-
(Being goods returned by debtors.)						
Debtors' Ledger Adjustment A/c ..	440	-	-			
To General Ledger Adjustment A/c				440	-	-
(Sales to debtors.)						

Much of the information required for the Adjustments Accounts is readily available. The totals of discount, sales, returns and bills receivable are obtainable from the books which record these transactions. In order to obtain the total of cash received from debtors, it is necessary to arrange the Cash Book in the following or a similar form.

Dr.

Cash Book

	Discount.			Cash.			Bank.			Debtors			Creditors.		
	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
To Balances ..				10	-	-	760	-	-						
„ A. Allen ..	5	-	-	95	-	-				100	-	-			
„ Cash ..							100	-	-						
„ Sales ..				72	-	-									
„ D. Dunn ..				100	-	-				100	-	-			
„ Cash ..							160	-	-						
„ M. Myers (Re- fund excess payment)													10	-	-
	5	-	-	277	-	-	1,020	-	-	200	-	-	10	-	-
										LF			LF		

Kept in this way, the Cash Book readily furnishes the information required for the Adjustment Accounts. The credit side is set out in a similar way. On the debit side few entries are made in the creditors' column. If, however, an overpayment has been made to a creditor and a refund is received, then the column becomes necessary. Similarly, on the credit side of the Cash Book, the debtors' column would not often be needed.

It is also necessary to have a special form of Journal. The following example is suitable for a business having self-balancing ledgers for debtors and for creditors.

Journal

	Dr.		Cr.		Debtors.		Cr.		Creditors.		Dr.		Cr.	
	£	s. d.	£	s. d.	£	s. d.	£	s. d.	£	s. d.	£	s. d.	£	s. d.
Bad Debts A/c .. Dr.	30	-												
To X			30	-			30	-						
Interest A/c .. Dr.	5	-												
To "Z" (a Creditor) ..			5	-							5	-		
"Y" (Bill Rec. Dis- honoured) ..	100	-			100	-								
To Bills Receivable A/c			100	-										
Depreciation	30	-												
To Furniture			5	-										
„ Plant			25	-										

When the Journal is kept in this form, the items affecting the self-balancing ledgers are segregated, and posting is facilitated. Note that depreciation which affects two accounts in the General Ledger appears in the two first columns only. The entries in the debtors' and creditors' columns may be separately posted to the Adjustment Accounts or the totals posted as Sundries.

The records in a self-balancing creditors' ledger are very similar to those in a debtors' ledger. Such items as cash, discount, goods, returns and bills payable on the opposite side to that in which they are entered in the Debtors' Ledger. Two adjustment accounts are necessary, a General Ledger Adjustment Account in the Creditors' Ledger, and a Creditors' Adjustment Account in the General Ledger. If, as is probable in large businesses, more than one debtors' or creditors' ledger is used, each of these may be made self-balancing. In such cases it will be necessary to use suitable subsidiary books giving the necessary totals for each ledger.

ILLUSTRATIVE EXERCISE

John Garside keeps his Sales Ledger upon the self-balancing principle.

Prepare the necessary adjustment accounts in the General Ledger and in the Sales Ledger, as on January 31st, 1910, from the following particulars :

1910	£
Jan. 1—Total debtors' debit balances at this date were	12,542
„ 31—Total goods sold to customers for the month ..	21,858
„ 31—Total goods returned by customers for the month	942
„ 31—Total cash received from customers for month	15,621
„ 31—Total discount allowed to customers for month	968
„ 31—Total acceptances received from customers during the month	3,471
„ 31—Total acceptances dishonoured by customers during the month	542

(R.S.A., Advanced, 1910.)

The Journal entries for this exercise would be as follows :

	L.F.	£	£
Jan. 1—Sales Ledger Adjustment A/c <i>Dr.</i> To General Ledger Adjustment A/c (Total debit balances at this date.)		12,542	12,542
„ 31—Sales Ledger Adjustment A/c <i>Dr.</i> To General Ledger Adjustment A/c (Total sales to customers during month.)		21,858	21,858
„ 31—General Ledger Adjustment A/c <i>Dr.</i> To Sales Ledger Adjustment A/c (Goods returned by customers during month.)		942	942
„ 31—General Ledger Adjustment A/c <i>Dr.</i> To Sales Ledger Adjustment A/c (Total cash received from customers.)		15,621	15,621
„ 31—General Ledger Adjustment A/c <i>Dr.</i> To Sales Ledger Adjustment A/c (Total discount allowed to customers.)		968	968
„ 31—General Ledger Adjustment A/c <i>Dr.</i> To Sales Ledger Adjustment A/c (Total acceptances received from customers during month.)		3,471	3,471
„ 31—Sales Ledger Adjustment A/c <i>Dr.</i> To General Ledger Adjustment A/c (Total acceptances dishonoured during month.)		542	542

SELF-BALANCING LEDGERS

When the Journal has been posted and the balancing completed, the Adjustment Accounts would appear thus :

[illegible]

RATIONAL BOOK-KEEPING

Dr.		Sales Ledger Adjustment Account (in General Ledger)				Cr.			
		£	s.	d.		£	s.	d.	
1910									
Jan. 1	To Balance brought forward ..	12,542	-	-	1910				
31	" Sales during month ..	21,658	-	-	" 31	By Returns during month			
31	" Acceptances dishonoured during month ..	542	-	-	" 31	" Cash received from customers during month ..			
					" 31	" Discount allowed to customers during month ..			
					" 31	" Acceptances received during month ..			
					" 31	" Balance carried down..			
		£ 34,742	-	-					
						£ 34,742	-	-	
1910									
Jan. 31	To Balance brought down..	£ 13,740	-	-					

EXERCISE 96

The X.Y. Company keep their Ledgers on the "self-balancing" system. On December 31st, 1910, the Sales Ledger Account in the Private Ledger showed a debit balance brought down December 31st, 1909, of £4,031. During the year the total sales were £35,422, and returns inwards were £625. The cash received during the year and posted to the Sales Ledger was £31,125. The discounts allowed on accounts in the Sales Ledger amounted to £1,314. Transfers from the Bought Ledger to the *Cr.* of Sales Ledger Accounts, £720. Transfers from the Sales Ledger to the *Dr.* of Bought Ledger Accounts, £1,052. Bills receivable posted to the Sales Ledger, £2,035. Write up the Sales Ledger Account and show the balance brought down at December 31st, 1910.

(*Institute of Chartered Accountants, Intermediate, 1911.*)

EXERCISE 97

What is meant by a self-balancing Ledger ?

From the information given below, prepare the General Ledger Adjustment Account as it would appear in the Bought Ledger of Messrs. Shaw & Sons, as at December 31st, 1921.

	£	s.	d.
Credit balances, January 1st, 1921	6,328	1	7
Cash paid	10,129	3	8
Discount received	809	1	6
Purchases	18,327	11	9
Returns	429	17	7
Bills payable	5,817	12	3
Cash received	21	6	3
Credit balances transferred to Sales Ledger ..	61	3	9

(*Union of Lancashire and Cheshire Institutes, 1922.*)

EXERCISE 98

On January 1st, 1912, Henry Hart had cash in office, £120 ; cash at Bank, £425 12s. 6d. ; goods on hand, £550 10s. Debtors : A. Allen, £210 15s. 6d. ; B. Best, £360 4s. 6d. ; C. Crane, £120 7s. 6d. ; D. Dare, £175 10s. Creditors : E. Eley, £130 6s. 8d. ; F. Fish, £280 13s. 4d. Find and credit his capital. Enter in suitable books, post to self-balancing Ledgers and extract Trial Balances. Cheques paid into bank when received.

1912	£	s.	d.
Jan. 1—Charge A. Allen interest on his overdue %	1	1	8
„ 1—Purchased goods with cheque	215	7	6

1912		£	s.	d.
Jan.	2—Received cheque in full discharge of Dare's % and paid into Bank	153	11	3
	Wrote off his balance as bad debt.			
„	3—Received cheque from A. Allen	211	17	2
„	4—A. Allen bought goods of me	180	12	6
„	4—Paid charges for him from office cash ..	1	7	6
„	5—Received cheque from A. Allen	82	—	—
„	6—Sales to A. Allen	57	3	4
„	6—Paid wages from office cash	4	10	—
„	8—B. Best sent his cheque, £351; allowed discount	9	4	6
„	9—Sold goods to B. Best	250	10	2
„	9—Paid rent with cheque	20	—	—
„	10—Purchases from C. Crane	25	10	—
„	11—Recd. cheque from C. Crane, £90 10s. 6d.; discount	4	7	—
„	12—C. Crane bought goods	110	8	4
„	13—Paid rates with office cash	6	3	4
„	13—Received a cheque for goods	150	6	8
„	15—Received cash for a bad debt	16	5	—
„	16—Posted a cheque to E. Eley, £127 10s.; discount	2	16	8
„	17—Bought goods of E. Eley	155	7	6
„	17—Drew cheque for self	25	—	—
„	18—Drew a cheque for E. Eley	105	7	6
„	19—E. Eley sold me goods	140	13	4
„	20—Paid wages with office cash	4	10	—
„	22—F. Fish bought goods	130	—	—
„	23—Posted cheque to F. Fish, £147 6s. 8d.; discount	3	6	8
„	24—Purchases from F. Fish	245	4	10
„	25—Bought goods from K. King	78	2	6
„	26—Sent King a cheque for half cost of goods	39	1	3
„	27—L. Lane bought goods of me	120	1	3
„	29—Sent cash to Bank	100	—	—
„	31—Interest on capital	6	13	4

EXERCISE 99

J. Arthur, a draper, decides to keep his books on the self-balancing principle. On February 1st, 1923, his financial position was as follows :

Cash in office	£10	Owing by W. Allen	£20
Cash at Bank	1,920	Owing to V. Dyce	60
Stock of goods	800	„ R. Edgar	20
B/R (W. Allen, due February 23rd)	50	„ W. Forfar	40
Owing by R. Bryce	50	B/P (T. Harper, due February 25th)	25
„ J. Carter	40	CAPITAL	?

Transactions during the month :

1923

- Feb. 1—Drew on R. Bryce at one month for the amount of his account.
 „ 2—Paid cheque on account to V. Dyce, £28 15s. ; discount, £1 5s.
 „ 2—Received £40 from J. Carter.
 „ 6—Sold goods to Carter, £45.
 „ 7—Bought goods from W. Forfar, £50.
 „ 9—Sold goods to J. George, £63 10s.
 „ 9—Carter returned 10 yards damaged tweed at 8/- per yard.
 „ 11—Sent P/N at one month to R. Edgar, in payment of £20 owing.
 „ 11—Bought goods from him, £100.
 „ 12—Discounted R. Bryce's acceptance, £49 ; bank charges, £1.
 „ 14—Sold goods to R. Harkins, £97 15s.
 „ 15—J. Carter became insolvent, paying a final dividend of 13/4 in the £.
 „ 17—Goods bought, and paid for, by cheque, £55.
 „ 17—Received cheque from Harkins, £96 ; discount, £1 15s.
 „ 19—Bought from V. Dyce, goods, £90.
 „ 20—Paid for stationery out of office cash, £4 17s. 6d.
 „ 23—W. Allen's bill due to-day, dishonoured, £50 ; paid noting charges, 5s.
 „ 23—Accepted bill drawn by Forfar for £90.
 „ 24—Sold goods to R. Bryce, £37 15s.
 „ 24—R. Bryce returned damaged goods, £15.
 „ 25—Returned goods to W. Forfar, £20.
 „ 25—Drew cheque for office salaries, £55 ; paid them in cash.
 „ 25—Paid bill due to-day by cheque.
 „ 25—Bought goods from W. Forfar, £90.
 „ 27—Sold goods for cash, £316 ; paid cash into Bank.
 „ 27—Paid V. Dyce £58 10s. ; discount, £1 10s.
 „ 27—Sold goods to H. Inglis, £52 10s.
 „ 28—Received cheque from him, £50 ; discount, £2 10s.
 „ 28—Paid sundry expenses, by cheque, £10.
 Value of goods unsold, £723.

N.B.—All cheques paid into Bank on same day as received.
 All payments made by cheque unless otherwise stated.

You are required to write up J. Arthur's books, to post to the Purchases, Sales, and General Ledgers, and to prepare Trial Balances for each Ledger.

CHAPTER XVI

SINGLE ENTRY

What it Means

WHAT is the meaning of Single Entry ? A haphazard, totally inadequate, and thoroughly unsatisfactory procedure, having no underlying theory, a procedure that may lend itself to fraud and is certain to tend to confusion and inaccuracy. One might ask reasonably, in view of its many and admitted defects—Is single entry ever used ? Unfortunately, it is still used in many small businesses where book-keeping receives scant attention. Because of this fact, examiners feel justified in including questions on the subject in test papers. The student must therefore become familiar with the general idea. What follows is an attempt to describe the characteristics of single entry frequently met with by accountants.

A Typical Example

Creditors' accounts are represented merely by the statements of account received, those unpaid being kept separate from those paid. To ascertain his indebtedness, the proprietor collects these statements, makes a list of the balances, and the total of this list is assumed to be the amount owing to sundry creditors. The accuracy of this total depends on the list being complete and up to date and on the statements received from the creditors being accurate. It will be observed that this is a schedule of trade creditors only, and that no records are kept of such items as rent, rates, taxes, light, heat, and other expenses accruing. Each credit sale is entered in a Day Book under the name of the customer, usually in date order, and, later on, when payment is made, the record is crossed out or the word "paid" written on it. To compile a list of debtors necessitates going through this Day Book, picking out those items not cancelled. As there is no double entry, and frequently no invoice of sales, the accuracy of these records may be questioned at any time by the customers, and disputes are not uncommon. The sales of a business conducted on these lines are usually ascertained daily

by reference to the "till." The amount spent, as shown by the receipts for the day, is added to the sum in the "till" at the end of the day, and from this total is deducted the amount placed in the "till" that morning for change purposes. The difference is termed "takings" or sales for the day. It is obviously wrong to treat this amount as the sales for that day, as no allowance has been made for credit sales, neither has any money received from debtors been taken into account. In addition, it is not unusual to find that small payments are made out of the "till" for which no receipts are held and no record kept. The result is that some of these transactions are forgotten, and a reduction in the value of sales with a corresponding reduction in the amount of expenses takes place. If the proprietor has a banking account, it is often found that no attempt has been made to distinguish between business items and those of a personal nature. His personal drawings are sometimes from the "till," and sometimes from the bank, and he generally looks upon the bank balance as his own, but available for business purposes. No record is kept of fixed assets, and a purchase or sale of such assets is not taken into consideration except when a statement of the financial position of the business is drawn up. This Statement of Affairs, as it is called, has a twofold purpose. It shows the liabilities and assets of the business on a given date, and enables the profit earned or loss incurred since the last Statement of Affairs was made to be ascertained. As no system of check on the records can be exercised, this Statement of Affairs cannot be relied on to the same extent as a balance sheet extracted from accounts kept under the double entry system.

It will be seen from the foregoing that there is a complete absence of method, and that to describe Single Entry as a system is absurd.

Books Used

Frequently a combination of Single and Double Entry is found. The books used in such cases may be—Cash Book, Purchase and Sales Books, Debtors' and Creditors' Ledgers.

Two Problems

To the student there are two problems set by this section of the work :

- (1) How to prepare a Statement of Affairs from such records as are kept by Single Entry ; and
- (2) By what means, and in what way, can Single Entry records be changed to Double Entry ?

Illustration of How to Prepare a Statement of Affairs

A. Small, a sole trader, commenced business on January 1st, 1930, with the following assets :

Cash	..	..	..	..	..	£250
Fixtures and Fittings	..	..	..	..	..	40
Stock-in-Trade	..	..	..	..	..	340
Leasehold Premises	..	..	..	..	..	1,000

This means that A. Small's capital, at the commencement of his business, consisted of these assets and amounted to £1,680. On December 31st, 1930, it was found that the liabilities and assets of A. Small's business were as follows :

Cash	..	..	..	..	..	£190
Stock-in-Trade	..	..	..	..	..	630
Sundry Debtors	..	..	..	..	..	65
Sundry Creditors	..	..	..	..	..	84
Fixtures and Fittings	..	..	..	..	..	60
Leasehold Premises	..	..	..	..	..	1,000

During the year A. Small had taken from the business £4 a week as drawings, and had paid out of his own pocket £20 for new fixtures. As the period of the lease was for ten years, it was agreed to write off one-tenth of its value ; it was also agreed to depreciate Fixtures and Fittings by 5%.

A. Small's financial position on December 31st, 1930, may be set out as follows :

Cash	..	..	..	..	..	£190	
Sundry Debtors	..	..	..	..	..	65	
Stock-in-Trade	..	..	..	..	..	630	
Fixtures and Fittings	..	..	..	..	..	£60	
Less Depreciation, 5%	3	57
Leasehold Premises	1,000	
Less Depreciation, 10%	100	900
Total c.f.		1,842

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Total Assets b.f.					£1,842
Less Sundry Creditors				84	
Less Capital	£1,630				
Add amount spent on fixtures out of pocket	20				
	£1,650				
Less drawings at £4 a week	208	1,442		1,526	
Surplus of Assets or Net Profit					£316

Although this form of presentation shows A. Small's financial position, students of Double Entry book-keeping will find the following Statement of Affairs a much better form of presentation and one that conforms to Double Entry.

A. Small's Statement of Affairs, December 31st, 1931

<i>Liabilities</i>			<i>Assets</i>		
	£	£		£	£
Sundry Creditors		84	Cash		180
Capital, January 1st, 1930	1,630		Sundry Debtors		68
Add amount spent on fixtures out of pocket	20		Stock-in-Trade		630
	1,650		Fixtures and Fittings	80	
Less Drawings at £4 a week	208		Less Depreciation, 5%	3	57
	1,442		Leasehold Premises	1,000	
Add Profit	316	1,758	Less Depreciation, 10%	100	900
	<u>£1,842</u>				<u>£1,842</u>

Limitations

Here is a summary of the limitations of Single Entry :

- (1) No check to ensure accuracy.
- (2) No safeguard against fraud.
- (3) No classified information.
- (4) Real accounts are not kept. Assets are valued each time a Statement of Affairs is made.
- (5) Nominal accounts are not kept. The nature and amount of losses and gains are not known, consequently no check on these can be made.
- (6) Accounts of losses or gains, or assets or liabilities, may be omitted without their omission being apparent.
- (7) A Trial Balance cannot be extracted, and consequently the final results are unreliable.
- (8) For taxation purposes, or as a basis for the sale or valuation of a business, Single Entry records are not generally acceptable.

Conversion from Single to Double Entry

To change from Single to Double Entry, it is necessary to make out a Statement of Affairs on the date that the change is to be made. This Statement of Affairs, an example of which has already been given, should be entered in the Journal in the form of opening entries, and from there each item posted to the appropriate accounts in suitable books. Taking A. Small's Statement of Affairs as an example, the records would be as follows :

Journal						Dr.	Cr.
						£	£
1931							
Jan. 1	Cash	..	..	..	Dr.	190	
	Sundry Debtors	..	..	..	"	65	
	Stock-in-Trade	..	..	..	"	630	
	Furniture and Fittings	..	..	..	"	57	
	Leasehold Premises	..	..	..	"	900	
	To Sundry Creditors	..	..	..			84
	„ Capital, A. Small	..	..	..			1,758
						£1,842	£1,842

Note.—Sundry Debtors and Sundry Creditors are obtained from schedules, and the Journal must show *each* person's account instead of totals ; otherwise it is not possible to open separate personal accounts and enter in each the appropriate balance.

These balances may now be posted to the appropriate accounts and subsequent transactions entered in suitable books and according to the rules of the Double Entry system.

FORMULA FOR CHANGING FROM SINGLE TO DOUBLE ENTRY

- (1) Make out a statement of assets and liabilities showing the position at the beginning of a trading period.
- (2) Prepare lists of debtors and creditors and make allowances for bad debts and discounts.
- (3) Value all assets and ascertain the cash and bank balances.
- (4) Accruing expenses such as rent, rates must be entered.
- (5) The excess of assets over liabilities is the capital required to complete and balance the statement.
- (6) Enter the whole of the preceding information in Journal form and post to the Ledger.

(7) Finally, write up the Double Entry for the period, obtaining this information from subsidiary books (if such have been kept), or, if no subsidiary books have been used, the information will be obtained by analysing the items on both sides of the Ledger accounts.

EXERCISE 100

J. White commenced business with £1,000 capital on April 1st, 1980. He has not kept proper records of his transactions, but it is found that on March 31st, 1981, he has the following liabilities and assets :

Fixtures and Fittings	..	..	..	..	£180
Sundry Debtors	..	..	..	..	210
Sundry Creditors	..	..	..	..	145
Stock-in-Trade	..	..	..	..	349
Cash at Bank, Deposit A/c	..	..	..	..	400
Cash at Bank, Current A/c	..	..	..	..	86
Cash in Hand	..	..	..	..	12

During the year his drawings amounted to £200. Make out a Statement of Affairs and show what profit or loss has been made during the year.

EXERCISE 101

On December 31st, 1930, J. Wilks's capital was £865. On December 31st, 1931, a list of liabilities and assets was prepared as follows :

Cash	..	..	..	..	..	..	£8
Bank	..	..	..	..	..	..	64
Sundry Trade Creditors	..	..	..	..	..	..	97
Stock-in-Trade	..	..	..	..	..	..	395
Furniture	..	..	..	..	..	..	78
Rent, Rates, and Taxes owing	..	..	..	..	..	..	26

Personal drawings during the year amounted to £250.

Make out a Statement of Affairs showing what profit or loss was made during the year, and the amount of J. Wilks's capital on December 31st, 1931.

EXERCISE 102

C. Dunn's Statement of Affairs on June 30th, 1931, was as follows :

CHAPTER XVII

PARTNERSHIPS

ALL the principles of double entry which have been explained in the preceding chapters, and all the exercises illustrating those principles, have had exclusive reference to businesses in which the proprietorship is held solely by one person—a person who owns all the assets and is solely responsible for all the liabilities. Such undertakings are generally small, and the owners are known as sole traders. In larger concerns, where, as a rule, more capital is necessary, where a greater volume of business is transacted, and where heavier responsibilities in relation to liability are undertaken, the proprietorship is more frequently vested in a number of joint proprietors who share in the fortunes or misfortunes of the enterprise, who “trade in common with a view of profit.” The trading relationship thus established is known as a Partnership and the persons who are thus associated are referred to as Partners. Partners are classified as follows :

Active Partner.—One who assists in the management of the business.

Sleeping or Dormant Partner.—One who has invested capital in the business but, by agreement with the other partners, does not take part in the management.

Quasi Partner.—One who was previously an active partner but who, on retiring from participation in the management, has left capital in it as a loan on which he is entitled to interest varying with the profits.

Limited Partner.—One who shall, at the time of entering into such partnership, contribute thereto a sum or sums as capital or property valued at a stated amount, and who shall not be liable for the debts or obligations of the firm beyond the amount so contributed. If he takes part in the management of the business, his liability becomes the same as if he were a general partner.

General Partner.—In a Limited Partnership, any partners other than limited partners are termed general partners.

Reasons for Working in Partnership

The reasons for working in partnership instead of as sole traders are not necessarily confined to capital and liability. A partnership may exist, and very frequently does exist, for reasons totally unconnected with those mentioned. For example, professional men specialising in different branches of work may find a partnership of great mutual advantage ; businesses having separate closely related sections—publishing and printing might be instanced—may find divided proprietary interest of great value ; and there are a variety of other considerations that may operate.

Methods of Keeping Accounts

The methods of keeping the accounts which record the *trading* activities of a partnership are the same as those already explained in regard to a sole trader. There is a difference in the method of keeping the capital accounts, and special arrangements must be made to show the division of profits. In other words, there is no difference between the accounts of a sole trader and those of a partnership except to show the financial position as between the partners themselves. That may sound simple enough, but it would be well to understand at the outset that the greatest importance must be attached to the exception referred to, for, in various circumstances, it is easy to fall into serious error, and many complex problems can be evolved where careful and thoughtful treatment is essential to secure the correct result.

Limitation of Number of Partners

It is necessary at this stage for the student to be familiar with one of the provisions of the Companies (Consolidation) Act, 1908, where, in Section 1, it is laid down that “ no partnership may be formed consisting of more than twenty persons, unless it is registered as a company.” It is also provided that in the case of banks the partners may not exceed ten in number, unless registered under the Companies Acts. The same provisions are made in the Companies Act 1929.

Relation of Partners Between one Another

By the Partnership Act, 1890, a partnership is defined as “ the relation which subsists between persons carrying on a business in common with a view of profit.”

Let us deal with the relation that, in general, subsists between the joint proprietors. The first point to understand is that, whatever be the terms of agreement, each partner must observe the utmost fairness and good faith towards his fellow-partners.

The whole of the partnership debts and liabilities are the individual responsibility of each of the partners.

There are partnerships in which the liability of one or more but not all of the members can be limited under the Limited Partnership Act, 1908, but these are very rare.

The contributions of the partners to the joint capital may differ in amount. This is frequently the case.

All partners share in profits and bear the burden of losses, but the proportion in which they share varies according to agreement, or, in the absence of agreement, according to the provisions of the Partnership Act—not necessarily according to the amount of capital contributed by each. Other important factors frequently influence the proportion in which profits and losses are divided. One partner may have specialised knowledge, greater experience, or devote more time to the business than the other or others. The main point is to realise that the proportions may differ or vary as between different partners, according to the Deed of Partnership.

Unless there is an agreement to the contrary, all partners are entitled to share in the management of the business, but are not entitled to any salary for the service they give.

Deed of Partnership

As a rule, when a partnership is formed, a legal document called a Deed of Partnership or Articles of Partnership is drawn up and is signed by all the partners. These Articles mainly detail the rights and duties of the partners as between themselves.

The following points would be dealt with in a properly drawn Deed of Partnership :

- (a) Amount of capital to be contributed by each partner and a statement as to whether these amounts are to be fixed or not.
- (b) How profits and losses are to be shared ; this to include profits and losses of a capital nature or otherwise.
- (c) Amount allowed to be drawn by each partner.

- (d) Whether interest is to be allowed on capital and charged on drawings, and, if so, the rate should be specified.
- (e) A statement regarding partners' salaries (if any).
- (f) Arrangements to be made in the event of retirement or death of a partner. This would involve the question of the valuation of goodwill.
- (g) Where survivorship insurance is part of the scheme of the partnership—how premiums are to be treated in the books of the firm and how the insurance money is to be divided if received.
- (h) Arbitration—procedure to be adopted in the event of dispute.

These are mentioned as the main points. Numerous other items may be included, the aim being to provide a code to which reference will be made by partners should the necessity arise.

Where there is no Agreement

In the event of disagreement on any point which is not provided for in the Deed, the provisions of the Partnership Act, 1890, apply.

It is to be understood that the "relation that subsists" between the partners may be anything that the partners themselves decide it shall be. Legally this Agreement may be in writing or may be "inferred from the course of conduct pursued by the partners." When there is no such expressed or implied Agreement, the partnership is regulated by the Partnership Act, 1890. Section 24 contains the following important provisions :

- (1) All the partners are entitled to share equally in the capital and profits of the business, and must contribute equally towards the losses, whether of capital or otherwise, sustained by the firm.
- (2) A partner making, for the purpose of the partnership, any actual payment or advance beyond the amount of capital which he has agreed to subscribe, is entitled to interest at the rate of 6% per annum from the date of the payment or advance.
- (8) A partner is not entitled, before the ascertainment of profits, to interest on the capital subscribed by him.

- (4) No partner shall be entitled to remuneration for acting in the partnership business.

Students are often puzzled in interpreting No. 1, the broad meaning of which is that in the absence of an Agreement there is no necessary connection between the proportion in which capital is contributed and the proportion in which profits and losses are shared. Partners share profits and bear losses equally, irrespective of the fact that the capital contributed by each may not be equal. However, an agreement to share profits in certain proportions is, according to Section 44 of the Act, *prima facie* evidence that it was the intention of the partners that losses should be borne in the same proportions—not equally.

Recording Capital in the Books of the Partnership

The combined capital of the partners corresponds with the capital of a sole trader. In most cases there is a difference between the amounts contributed by each partner, and it is therefore necessary to provide facilities for recording this fact clearly in the books of the partnership.

Capital accounts are opened for each partner, and each account is credited with the amount contributed by the partner concerned. Therefore, from the book-keeping standpoint, the business treats the partners as creditors of the firm for the amounts so contributed, and when the accounts are made up at the close of a trading period the net profit shown, or the net loss as the case may be, is apportioned to the partners in accordance with the terms of the Partnership Agreement, or, as already explained, if there is no Partnership Agreement the division is equal. If a net profit, the proportions are credited to the partners; and if a net loss, the proportions are debited. These net profits or net losses may be entered in the partners' capital accounts or current accounts. The modern method is to open two separate accounts for each partner—one account serving to record the partner's capital, properly so called, and into which is entered the amount of capital contributed (an amount which remains unaltered unless there is at any time an agreement to change the amount of capital originally contributed); and the other (called a Current or Drawings Account) is used to keep a record of everything else as between the partner and the firm. This Current or Drawings Account would therefore contain such items as particulars of all withdrawals made by the partner and

the interest chargeable thereon ; interest on capital ; share of profits or losses ; salary, if the Agreement allowed such ; withdrawals of goods, etc.

If there is a balance on these Current Accounts at the end of the financial period it is carried forward. The Agreement usually contains a clause making the balance of the Current Account subject to interest at a specified rate ; a debit balance would be shown as due to the business and would appear as an asset in the balance sheet, where it should be shown as a separate item.

New Partner—Retirement—Goodwill

From the book-keeping point of view, the admission or retirement of a partner is intimately associated with the question of goodwill, a term which has a special commercial meaning rather difficult to define. A much-quoted definition given by Lord Eldon is: " Goodwill is nothing more than the *probability* that the old customers will resort to the old place." But it has a wider meaning than that ; it can and does exist quite independently of locality. The main point, however, so far as we are concerned, is that goodwill is an asset, not indeed in the same sense as stock-in-trade, book debts, furniture, which can be sold in the ordinary way or on which a banker normally would be willing to grant a loan, but an asset nevertheless—intangible but often very valuable. When a person is taken into a partnership he acquires a right to a proportionate share of the goodwill of the firm, and correspondingly the share of the other partners is diminished to that extent. It is therefore equitable that the new member should pay for the benefit he receives. Payment is generally made in the form of a premium, and frequently the fee is paid direct to the other partners (divided, as a rule, in proportion as they share profits) as a transaction outside the business. When this is done there is no need to record the transaction in the financial books of the firm. In this case the only money that should be credited to the new partner's capital account is any amount which is actually contributed to the new firm's capital. A premium is obviously not a contribution to his capital account. It should be noted, however, that there is a distinct advantage to the incoming partner in having any payment he makes by way of premium for goodwill recorded in the partnership books so as to ensure that there will be a permanent record of it. Such a record would be

evidence of the payment and would constitute a basis for future valuation.

Example where New Partner Pays Premium on Entering Partnership

A. Brown and B. Charles are in partnership and share profits and losses two-thirds and one-third respectively. Their capitals on June 30th, 1931, were—A. Brown £4,000 and B. Charles £2,500. It was agreed to admit C. Davies as a partner, that he should bring in £2,000 as capital, and pay £600 for his share of the goodwill. The entries necessary to record the above, assuming that the premium is left in the business, are as follows :

Dr.		Cash Book			Cr.	
1931		£	s.	d.		
July 1	To C. Davies's Capital A/c	2,600	-	-		

		Journal			Dr.		Cr.	
1931		£	s.	d.	£	s.	d.	
July 1	C. Davies's Capital A/c	600	-	-				
	To A. Brown's Capital A/c				400	-	-	
	„ B. Charles's Capital A/c				200	-	-	
	(Being Premium paid by C. Davies and apportioned as per Agreement.)							

Dr.		A. Brown's Capital				Cr.			
					1931 July 1		£	s.	d.
					By Balance	4,000	-	-	
					„ † C. Davies's Pre- mium... ..	400	-	-	
						£4,400	-	-	

Dr.		B. Charles's Capital				Cr.		
				1931 July 1	By Balance	£ 2,500	s. -	d. -
					" " C. Davies's Pre- mium... ..	200	-	-
						£2,700	-	-

Dr.		C. Davies's Capital					Cr.		
1931		£	s.	d.	1931		£	s.	d.
July 1	To A. Brown ..	400	-	-	July 1	By Cash	2,600	-	-
	„ B. Charles ..	200	-	-					
	„ Balance o/d ..	2,000	-	-					
		<u>£2,600</u>	-	-			<u>£2,600</u>	-	-
					July 1	By Balance b/d ..	£2,000	-	-

In this example the premium is paid into and retained in the business. If the old partners take out the premium, the amounts so taken would be credited in the Cash Account and debited to the Capital Account of the old partners. Should the payment of premium be direct to the partners and not brought into the business, no record of it would appear in the accounts. Although the payment of £600 is stated as "for his share of the goodwill," be careful not to assume that a Goodwill Account should be opened. The £600 goes to the old partners as a personal recompense for admitting the new partner. It is quite clear that there was no Goodwill Account in the old books, nor is there any reason in these circumstances for opening one in the books of the new firm.

Example where Goodwill is Credited to Old Partners

In some cases the Agreement provides that the goodwill shall be valued and credited to the old partners' capital accounts before the new partner comes in, and that the new partner shall not pay any premium for admission to the partnership. The following is an example :

E. Keen and D. Sharp's Balance Sheet as at December 31st, 1981

<i>Liabilities</i>			<i>Assets</i>		
	£	s. d.		£	s. d.
Sundry Creditors ..	260	- -	Cash in Hand ..	20	- -
E. Keen's Capital ..	4,200	- -	Cash at Bank ..	1,050	- -
D. Sharp's Capital ..	3,600	- -	Sundry Debtors ..	930	- -
			Stock-in-Trade ..	2,810	- -
			Furniture ..	250	- -
			Premises ..	3,000	- -
	<u>£8,060</u>	<u>- -</u>		<u>£8,060</u>	<u>- -</u>

It was agreed to admit A. Cook as partner and that he should bring in as capital £3,000. It was further agreed that the goodwill be valued at £1,200 and that an account be made to record this amount. Make out the necessary entries and the capital accounts of the partners.

<i>Dr.</i>		<i>Cash Book</i>		<i>Cr.</i>	
		Cash.	Bank.		
		£	£		£
1982				1982	
Jan. 1	To Balances ..	20	1,050		
	„ A. Cook's Capital				
	A/c ..		3,000		

Journal				Dr.			Cr.		
1932				£	s.	d.	£	s.	d.
Jan. 1	Goodwill A/c	Dr.		1,200	-	-	600	-	-
	To E. Keen's Capital A/c ..						600	-	-
	„ D. Sharp's Capital A/c								
Dr.				E. Keen's Capital			Cr.		
				1932			£	s.	d.
				Jan. 1	By Balance ..	..	4,200	-	-
					„ $\frac{1}{2}$ Goodwill ..	..	600	-	-
							£4,800	-	-
Dr.				D. Sharp's Capital			Cr.		
				1932			£	s.	d.
				Jan. 1	By Balance ..	..	3,600	-	-
					„ $\frac{1}{2}$ Goodwill ..	..	600	-	-
							£4,200	-	-
Dr.				A. Cook's Capital			Cr.		
				1932			£	s.	d.
				Jan. 1	By Cash .. ..	..	3,000	-	-
Dr.				Goodwill			Cr.		
1932				£	s.	d.			
Jan. 1	To Valuation, January 1st, 1932:								
	E. Keen's Capital	600	-	-					
	D. Sharp's Capital	600	-	-					
		£1,200	-	-					

Comments on the Two Preceding Examples

On a casual examination of these two examples the student might assume that in the second one—where there is no premium—the advantage is on the side of the incoming partner. However, if the two examples are carefully scrutinised, it will be seen that both are equitable.

If the premium is paid, the old partners' capital accounts are *not* credited with the present value of goodwill, although the existence of goodwill and its value are beyond question. The payment of the premium is on account of an asset—goodwill—which is not included in the records. Should the business be disposed of subsequently, the new partner will be entitled to his share of the amount realised by the sale of the goodwill.

When no premium is paid, the goodwill created by the old partners is valued and credited to their capital accounts.

EXERCISE 104

A. Swan and D. Smith are in partnership and share profits and losses two-thirds and one-third respectively. Swan's capital is £3,000 and Smith's £1,800. The net profit for the year ended December 31st, 1931, is £1,400. Compile Profit and Loss Account and partners' Capital Accounts, and apportion the profit after charging interest on capital and drawings at 5% per annum. Swan's drawings, £300 ; Smith's drawings, £250.

EXERCISE 105

J. Bright and H. Day are in partnership and share profits and losses equally. Their capitals are : Bright, £3,000 ; Day, £2,600. Before charging interest at 5% per annum on the partners' capital, the net profit amounted to £80. Complete the Profit and Loss Account, and make out the Capital Accounts of Bright and Day.

EXERCISE 106

The capitals of H. Sweet and L. Low, who are equal partners, are £4,200 and £3,700 respectively. A. Jay, on entering the partnership, agreed to pay a premium of £500 and bring in as capital £1,000. Make the necessary entries to record the above, and set out the partners' Capital Accounts.

EXERCISE 107

The capitals of D. Evans and J. Jones are £1,600 and £1,200 respectively. They agreed to accept E. Williams as a partner and that he should bring in as capital £1,000. It was also agreed that the goodwill of the business be valued at £800 and brought into the books. The old partners shared profits, Evans three-fifths and Jones two-fifths. Make the entries necessary to record the above, and set out the Capital Accounts of the partners.

EXERCISE 108

A. Black and B. White enter into partnership as equal partners for the purpose of purchasing the business of H. Green.

Black contributed £4,000 and White £3,600 as capital, and on January 1st, 1932, they paid H. Green £4,500 as purchase price of the business, this price being arrived at on the basis of the following Balance Sheet :

H. Green's Balance Sheet as at December 31st, 1931

<i>Liabilities</i>			<i>Assets</i>		
	£	s. d.		£	s. d.
Sundry Creditors ..	460	- -	Stock	1,200	- -
H. Green's Capital..	4,500	- -	Sundry Debtors ..	600	- -
			Furniture and Fit- tings	160	- -
			Premises	2,000	- -
			Goodwill	1,000	- -
	<u>£4,960</u>	<u>- -</u>		<u>£4,960</u>	<u>- -</u>

Make the Cash-Book and Journal entries in the books of the partnership.

EXERCISE 109

A. Bell and K. Knight are equal partners, their capitals being £4,200 and £4,100 respectively. It was agreed to admit D. Mason as a partner and that he should bring in £2,000 cash as capital. The goodwill, which is shown in the books at £1,000, was revalued at £1,800. Make the entries to record the above, and set out the Capital Accounts of the partners.

EXERCISE 110

A. Brown and C. Charles are in partnership, their capitals being £3,000 and £2,000 respectively. They share profits, Brown three-quarters and Charles one-quarter. The Agreement provides that interest at 5% per annum shall be charged on capital and drawings. The partners' drawings were :

Brown				Charles			
1931				1931			
		£	s. d.			£	s. d.
March 1st	40	-	-	March 1st	50	-	-
July 1st	70	-	-	June 1st	60	-	-
October 1st	80	-	-	September 1st ..	50	-	-
December 1st ..	60	-	-	November 1st ..	50	-	-

On December 31st, 1931, the net profit for the year, before

interest on capital and drawings had been taken into account, was £2,600. Complete the Profit and Loss Account, and make out the Capital Accounts of Brown and Charles.

EXERCISE 111

On January 1st, 1932, A. Yates and W. Wyle, trading in partnership, find that interest on capital at 5% per annum had been omitted from the accounts for the previous year before crediting their capitals with their shares of the net profit. Their capitals, after adding net profit, three-quarters and one-quarter respectively, were: Yates, £3,200; Wyle, £2,600. The net profit amounted to £1,800. Make the entries necessary to adjust the partners' accounts, and set out their Capital Accounts.

EXERCISE 112

T. Page and K. Lester are in partnership. Page has a capital of £5,600; Lester, £2,800. They agree to admit E. Wallace as a partner with £2,600, £600 of which is to be considered as payment for a share of the goodwill and to be credited to Page and Lester in proportion to their capitals. Make the necessary entries to record the above, and state how the profits should be divided in order that each partner shall receive a share proportionate to his capital in the concern.

Realisation

So far we have discussed how partnerships are created and the relations that subsist between the partners during the period while the firm is in operation. Now let us turn our attention to what should happen when the life of the partnership has run its course, for partnerships are not immune from the common doom.

Subject to any agreement between the partners, a partnership is dissolved:

- (a) If entered into for a fixed term, by the expiration of that term.
- (b) If entered into for a single adventure or undertaking, by the termination of that adventure or undertaking.
- (c) If entered into for an undefined time, by any partner giving notice to the other or others of his intention to dissolve the partnership, in which case the partnership is dissolved from the date mentioned in the notice as

the date of dissolution, or, if no date is mentioned, as from the date of the communication of the notice, unless the Articles provide for some other date.

- (d) By the death of any partner.
- (e) By the bankruptcy of any partner.
- (f) At the option of the other partners, if any partner suffers his share in the partnership property to be judicially charged for his separate debt.
- (g) By the happening of any event which makes it unlawful for the business of the firm to be carried on in partnership.

The Partnership Act provides that in settling accounts between the partners after a dissolution of partnership the following rules shall, subject to any agreement, be observed :

- (a) Losses, including losses and deficiencies of capital, shall be paid first out of profits, next out of capital, and lastly, if necessary, by the partners individually in the proportion in which they were entitled to share profits.
- (b) The assets of the firm, including the sums, if any, contributed by the partners to make up losses or deficiencies of capital shall be applied in the following manner and order :
 1. In paying the debts and liabilities of the firm to persons who are not partners therein ;
 2. In paying to each partner rateably what is due from the firm to him for advances as distinguished from capital ;
 3. In paying to each partner rateably what is due from the firm to him in respect of capital ;
 4. The ultimate residue, if any, shall be divided in the proportion in which profits are divisible.

When a member of the firm, or the firm itself, becomes bankrupt, the creditors are classified as :

- (1) Preferential creditors, who have a first claim on the assets of the firm.
- (2) Fully secured creditors, who hold security of a value equal to or greater than the amounts owing to them. Any surplus left after payment of these creditors in full goes back to the business.
- (3) Partly secured creditors deduct from the amount owing to them the sum realised by the security, and rank as ordinary creditors for the balance.

(4) Unsecured creditors are entitled to payment out of any assets not already appropriated.

(5) Deferred creditors rank for payment after unsecured creditors and before partners in respect of capital.

When a partnership is to be liquidated, a Realisation Account is opened to record the dissolution. The procedure is as follows:

(a) All assets except cash to be transferred at book value to debit side of Realisation Account.

(b) Credit Realisation Account and debit Cash Account with the cash received from the sale of the assets.

(c) Pay the creditors, debiting their accounts and crediting Cash Account. Debit creditors' accounts with any discount received and credit Realisation Account.

(d) Transfer balance of Realisation Account to the debit or credit as the case may be on Profit and Loss on Realisation Account.

(e) Debit Profit and Loss on Realisation Account and credit Cash Account with expenses.

(f) Transfer the balance of the Profit and Loss on Realisation Account (according to whether a profit or loss has resulted) to the credit or debit of the partners' capital accounts in the proportion in which they share profits and losses. The balance of cash will equal the amount due to the partners on capital account.

In previous examples we have dealt with the position arising out of the introduction of a partner. We now detail, by means of an example, the records necessary to show the withdrawal of a partner.

C. Fox, A. Swift, and D. Dunn, trading as Fox & Co., are in partnership, sharing profits and losses one-half, one-third, and one-sixth respectively. This firm's Balance Sheet on June 30th, 1931, was as follows :

Fox & Co.'s Balance Sheet as at June 30th, 1931

<i>Liabilities</i>				<i>Assets</i>			
	£	s.	d.		£	s.	d.
Sundry Creditors ..	340	-	-	Cash	40	-	-
C. Fox's Capital ..	4,600	-	-	Bank	2,120	-	-
A. Swift's Capital ..	2,620	-	-	Stock	3,560	-	-
D. Dunn's Capital ..	1,200	-	-	Furniture ..	240	-	-
				Premises ..	2,800	-	-
	<u>£8,760</u>	-	-		<u>£8,760</u>	-	-

D. Dunn retires from the business on June 30th, on which date the goodwill was valued at £2,400. Make the entries necessary to record the full value of the goodwill in the accounts and show the Capital Accounts of the partners.

Journal			Dr.			Cr.		
			£	s.	d.	£	s.	d.
1931								
July 1	Goodwill A/c .. Dr.		2,400	-	-			
	To C. Fox's Capital A/c ..					1,200	-	-
	„ A. Swift's Capital A/c					800	-	-
	„ D. Dunn's Capital A/c					400	-	-

Dr.			C. Fox's Capital			Cr.		
						£	s.	d.
			1931					
			July 1	By Balance ..	..	4,600	-	-
				„ $\frac{1}{2}$ Goodwill	..	1,200	-	-
						£5,800	-	-

Dr.			A. Swift's Capital			Cr.		
						£	s.	d.
			1931					
			July 1	By Balance ..	..	2,620	-	-
				„ $\frac{1}{2}$ Goodwill	..	800	-	-
						£3,420	-	-

Dr.			D. Dunn's Capital			Cr.			
			£	s.	d.		£	s.	d.
1931						1931			
July 1	To Balance due for repayment ..		1,600	-	-	July 1	By Balance ..	1,200	-
							„ $\frac{1}{2}$ Goodwill	400	-
			£1,600	-	-			£1,600	-

Dr.			Goodwill			Cr.		
			£	s.	d.			
1931								
July 1	To Sundries:							
	C. Fox's Capital A/c	1,200	-	-				
	A. Swift's Capital A/c	800	-	-				
	D. Dunn's Capital A/c	400	-	-				
							
		£2,400	-	-				

The following example deals with the disposal of a business (a dissolution of partnership). The Balance Sheet of D.

George and E. Samuel, who share profits two-thirds and one-third respectively, is as given below :

D. George and E. Samuel's Balance Sheet as at September 30th, 1931

<i>Liabilities</i>			<i>Assets</i>		
	£	s. d.		£	s. d.
Creditors	260	- -	Cash	160	- -
D. George's Capital	2,090	- -	Debtors	380	- -
E. Samuel's Capital	960	- -	Stock	960	- -
			Furniture	210	- -
			Premises	1,600	- -
	<u>£3,310</u>	- -		<u>£3,310</u>	- -

The assets, other than cash, and the liabilities were taken over by J. Prosper & Co. for £3,600 cash. Incidental expenses paid amounted to £50. Make out the necessary entries to close the books of the firm.

<i>Dr.</i>			<i>Cash Book</i>		<i>Cr.</i>		
			£			£	
1931					1931		
Oct. 1	To Balance .. ..	..	160		Oct. 1	By Incidental Expenses, Profit and Loss A/c ..	50
	„ J. Prosper & Co. ..	..	3,600			„ D. George's Capital A/c ..	2,530
						„ E. Samuel's Capital A/c ..	1,180
			<u>£3,760</u>				<u>£3,760</u>

<i>Journal</i>			<i>Dr.</i>			<i>Cr.</i>		
			£	s.	d.	£	s.	d.
1931								
Oct. 1	Realisation A/c ..	<i>Dr.</i>	3,150	-	-			
	To Debtors .. ..	..				380	-	-
	„ Stock .. ..	..				960	-	-
	„ Furniture .. ..	..				210	-	-
	„ Premises .. ..	..				1,600	-	-
	Sundry Creditors ..	<i>Dr.</i>	260	-	-			
	To Realisation A/c ..	..				260	-	-
	J. Prosper & Co. ..	<i>Dr.</i>	3,600	-	-			
	To Realisation A/c ..	..				3,600	-	-
	Realisation A/c ..	<i>Dr.</i>	710	-	-			
	To Profit and Loss A/c ..	..				710	-	-
	Profit and Loss A/c ..	<i>Dr.</i>	660	-	-			
	To D. George's Capital A/c ..	..				440	-	-
	„ E. Samuel's Capital A/c ..	..				220	-	-
			<u>£8,380</u>	-	-	<u>£8,380</u>	-	-

Dr.		Realisation					Cr.		
1931 Oct. 1	To Sundry Assets ..	£	s.	d.	1931 Oct. 1	By Sundry Creditors	£	s.	d.
	" Balance to Profit and Loss A/c ..	3,150	-	-		" J. Prosper & Co.	280	-	-
		710	-	-			3,600	-	-
		£3,860	-	-			£3,860	-	-

Dr.		Profit and Loss					Cr.		
1931 Oct. 1	To Incidental Expenses ..	£	s.	d.	1931 Oct. 1	By Balance on Realisation	£	s.	d.
	„ Profit D. George's Capital ..	50	-	-			710	-	-
	„ Profit E. Samuel's Capital ..	440	-	-					
		220	-	-					
		£710	-	-			£710	-	-

Dr.				D. George's Capital				Cr.			
1931 Oct. 1		To Cash	£ 2,530	s. -	d. -	1931 Oct. 1		By Balance	£ 2,090	s. -	d. -
								" 1/3 Profit	440	-	-
			£2,530	-	-				£2,530	-	-

Dr.		E. Samuel's Capital					Cr.		
1931 Oct. 1	To Cash	£	s.	d.	1931 Oct. 1	By Balance	£	s.	d.
		1,180	-	-		" 1/6 Profit	960	-	-
							220	-	-
		£1,180	-	-			£1,180	-	-

The financial records of a dissolution of partnership are not always as favourable to the partners as those given in this example. The default or bankruptcy of a partner may be the cause of dissolution. Take an example in which there is a loss on realisation and one of the partners is unable to pay his share of the liabilities of the firm.

After realisation of assets and payment of creditors, the following is the position of A, B, and C, who share losses one-half, one-third, and one-sixth respectively.

Statement of Affairs of A, B, and C

	£	s.	d.		£	s.	d.
A's Capital A/c ..	1,500	-	-	Cash ..	1,610	-	-
B's Capital A/c ..	500	-	-	C's Capital A/c ..	210	-	-
				Deficiency A/c ..	180	-	-
	£2,000	-	-		£2,000	-	-

C is insolvent and unable to contribute anything to the assets of the business. Make the entries necessary to close the books.

<i>Dr.</i>		Cash Book				<i>Cr.</i>			
		£	s.	d.			£	s.	d.
To Balance ..	..	1,610	-	-	By A's Capital ..	..	1,280	-	-
					" B's Capital ..	..	380	-	-
		£1,610	-	-			£1,610	-	-

Journal		<i>Dr.</i>			<i>Cr.</i>		
A's Capital	<i>Dr.</i>	£	s.	d.	£	s.	d.
B's Capital	"	90	-	-			
C's Capital	"	60	-	-			
To Deficiency	"	30	-	-	180	-	-
A's Capital	<i>Dr.</i>	180	-	-			
B's Capital	"	60	-	-			
To C's Capital	"				240	-	-

<i>Dr.</i>		A's Capital				<i>Cr.</i>			
		£	s.	d.			£	s.	d.
Total Loss		90	-	-		By Balance b/d. ..	1,500	-	-
.. C's Deficiency ..		180	-	-					
.. Cash		1,230	-	-					
		£1,500	-	-			£1,500	-	-

<i>Dr.</i>		B's Capital			<i>Cr.</i>		
To £ Loss	£	s.	d.	By Balance b/d. ..	£	s.	d.
.. C's Deficiency ..	60	-	-		500	-	-
.. Cash	60	-	-				
	380	-	-				
	£500	-	-		£500	-	-

<i>Dr.</i>		C's Capital			<i>Cr.</i>			
		£	s.	d.		£	s.	d.
To Balance b/d.	..	210	-	-	By A's Capital A/c $\frac{1}{2}$	180	-	-
" $\frac{1}{2}$ Loss	..	30	-	-	" B's Capital A/c $\frac{1}{2}$	60	-	-
		£240	-	-		£240	-	-

<i>Dr.</i>		Deficiency			<i>Cr.</i>				
		£	s.	d.			£	s.	d.
To Balance b/d.	..	180	-	-	By A ½	..	90	-	-
					" B ½	..	60	-	-
					" C ½	..	30	-	-
		£180	-	-			£180	-	-

In the working of this example, it will be noted that C's

deficiency of £240 is not borne by A and B in the proportion in which ordinary profits and losses are shared. In the well-known case of *Garner v. Murray*, Justice Joyce held that the deficiency of an insolvent partner must be borne by the solvent partners in proportion to their capitals. For this reason A, whose capital is three-quarters of the whole, bears three-quarters of the deficiency, and B, whose capital is one-quarter of the whole, is debited with one-quarter of the deficiency.

EXERCISE 113

K. Kerr and D. Dunn, trading in partnership, decide as at December 31st, 1931, to dissolve partnership and to liquidate their business. Their Balance Sheet as on that date was as follows :

Balance Sheet as at December 31st, 1931

<i>Liabilities</i>			<i>Assets</i>		
	£	s. d.		£	s. d.
Sundry Creditors ..	500	- -	Cash ..	1,400	- -
K. Kerr's Capital ..	2,500	- -	Sundry Debtors ..	860	- -
D. Dunn's Capital ..	2,000	- -	Stock ..	1,500	- -
			Furniture ..	240	- -
			Goodwill ..	1,000	- -
	<u>£5,000</u>	<u>- -</u>		<u>£5,000</u>	<u>- -</u>

Profits and losses are shared equally. The debtors realised £830, stock £1,300, goodwill £1,500, and furniture £200. The creditors were paid in full, and the expenses of liquidation amounted to £80. Prepare the necessary accounts to show the result of the realisation as it would appear in the books of the firm.

EXERCISE 114

T. Smart and C. Cook, trading in partnership, decide to sell their business to the Elite Co., Ltd., for £5,000. The following is the firm's Balance Sheet on the date of sale, January 1st, 1932 :

Balance Sheet as at December 31st, 1931

<i>Liabilities</i>			<i>Assets</i>		
	£	s. d.		£	s. d.
Sundry Creditors ..	470	- -	Sundry Debtors ..	960	- -
T. Smart's Capital ..	3,000	- -	Stock ..	1,390	- -
C. Cook's Capital ..	1,540	- -	Furniture ..	160	- -
			Premises ..	2,500	- -
	<u>£5,010</u>	<u>- -</u>		<u>£5,010</u>	<u>- -</u>

Prepare the necessary accounts in the firm's books to show the disposal of the business. The partners share profits and losses, Smart, three-quarters and Cook one-quarter.

EXERCISE 115

A, B, and C dissolve partnership, and after realisation the following is the position of affairs :

Balance Sheet as at December 5th, 1931

<i>Liabilities</i>			<i>Assets</i>		
	£	s. d.		£	s. d.
Creditors	320	- -	Cash at Bank ..	9,620	- -
A's Capital	6,400	- -	C's Capital over-		
B's Capital	3,200	- -	drawn	300	- -
	<u>£9,920</u>	<u>- -</u>		<u>£9,920</u>	<u>- -</u>

The partners share profits and losses as follows : A one-half, B one-third, C one-sixth. C is unable to contribute anything. Draw up the final accounts.

EXERCISE 116

J. Perry and H. Hughes enter partnership upon equal terms for the purpose of purchasing the business of B. Austin. The business was taken over on January 1st, 1932, on the basis of the certified Balance Sheet given below :

B. Austin's Balance Sheet as at December 31st, 1931

<i>Liabilities</i>			<i>Assets</i>		
	£	s. d.		£	s. d.
Sundry Creditors ..	1,420	- -	Sundry Debtors ..	1,200	- -
B. Austin's Capital	8,180	- -	Stock	3,100	- -
			Plant	1,800	- -
			Premises	3,500	- -
	<u>£9,600</u>	<u>- -</u>		<u>£9,600</u>	<u>- -</u>

The purchase price was agreed at £9,000 and was paid out of the firm's banking account, to which Perry had contributed £5,500 and Hughes £4,500 as capital. For the purpose of the partnership the assets were revalued at :

				£	s.	d.
Debtors	..	..	..	1,100	-	-
Stock	..	..	..	2,800	-	-
Plant	..	..	..	1,500	-	-
Premises	..	..	..	3,300	-	-

A Goodwill Account is to be raised in the partnership books for the difference in the value of the assets. Make the entries to record these transactions in the books of Perry and Hughes, and prepare the Balance Sheet as at the commencement of the new partnership.

CHAPTER XVIII

DEPRECIATION AND RESERVES

WHEN taking stock for the purpose of arriving at a valuation of the assets of the business, it is necessary to make allowances for the diminished value of machinery, furniture and fittings, leases, property, and so forth. Consider the following examples.

If a desk is purchased at £8, after it has been in use for a time its value will naturally have gone down.

If a ninety years' lease of a property is purchased, after one year, all things being normal, the value of the lease will have correspondingly decreased.

Frederick Malcolm, a baker, for the purpose of increasing his output, arranges for the construction of an oven, costing £1,000, for which he pays as soon as the work has been completed. It may be safely assumed that after 20 years' constant use, the oven will be of no value. Malcolm has paid £1,000—how does he receive value in return? By his increased profits during the twenty years. In other words, £1,000 has been advanced to the business for use over a period of twenty years; consequently, each year should bear a fair proportion of the £1,000. This yearly charge against the business is called depreciation.

The question of fixing the exact rate is often one of great complexity, particularly where machinery is concerned, and the prudent accountant obtains advice from technical experts when a problem of this kind arises. There are three main factors to consider:

- (1) The original cost.
- (2) How long will the article be of use to the business for the purpose for which it was purchased?
- (8) Will the article be saleable at the end of the period, and, if so, what amount would it reasonably be expected to fetch?

When calculating No. 2, expert technical knowledge may be involved. For example, does a particular machine run constantly, day and night ; or are there long intervals during which it is out of action ? This is not merely a simple arithmetical calculation. Sometimes it is a great advantage to rest machinery ; in other cases, such as in the lace industry, depreciation is more rapid when a machine is stopped than when running.

HOW DEPRECIATION IS RECORDED

Suppose we have 700 typewriters, the original cost of which was £14,000. We may decide to write off 5% for depreciation. This may be done in various ways, the most common of which are :

- (1) Based on the original cost.
- (2) Based on the diminishing value.

Working on the original cost, at 5% depreciation, £700 would be written off each year, and at the end of the period usually assumed to represent the "life" of the article (say in this case twenty years) the asset would disappear from the books. By the other method (diminishing value), working again on a 5% depreciation, a longer period would be involved, as shown below :

Typewriters	..	..	..	£14,000
Less depreciation, 5%	..	..	..	700 first year
				<hr/>
				13,300
Less 5%	..	..	..	665 second year
				<hr/>
				12,635

And so on.

If the life of the machine is estimated at twenty years, at the end of that time there would be a balance on hand. This balance would represent the "scrap" value of the typewriters. In the case of the diminishing depreciation, the later years are charged less, but it should be borne in mind that repairs will be heavier.

Other methods of making provision for diminishing value are :

- (a) By creating a fund to which so much each year is placed so that at the end of the "life" of the asset a new article can be purchased.

- (b) By revaluation each year. If at the end of 1928 the value was £100, and on revaluation at the end of 1924 a reduction to £80 takes place, the £20 difference is charged against the P. and L. A/c. This method is most suitable where rapid depreciation takes place.

Depreciation is divided into two classes: internal and external. Internal depreciation is that which arises from the asset itself, such as wear and tear. External depreciation is caused by something quite apart from the asset under consideration—machinery becoming obsolete, the passing of time in the case of a lease.

The amount of depreciation is debited to the Depreciation A/c and credited to the asset account concerned, via the Journal.

Example

Journal

						Dr.	Cr.
						£	£
1935							
Dec. 31	Depreciation	..	..	..	Dr.	50	
	To Property	..	..	..			50
	(Being amt. w/o @ 5%.)						

Ledger

Dr.		Property A/c				Cr.	
1935			£	1935			£
Jan. 1	To Balance	..	1,000	Dec. 31	By Depreciation	..	50

Dr.		Depreciation A/c				Cr.	
Dec. 31	To Property 5%	..	£	Dec. 31	By Transfer to P. & L. A/c		£
			50				50

Dr.		Profit and Loss A/c				Cr.	
Dec. 31	To Depreciation Property 5%	..	£				
			50				

In the Balance Sheet in the inner column the asset is shown at its original value, or the value as stated in the previous Balance Sheet, and the amount of depreciation is deducted and the net value is shown in the outer column.

Balance Sheet

<i>Liabilities</i>		<i>Assets</i>	
		£	£
		Property	1,000
		Less Depreciation	50
			<hr/> 950

Further Example

The following items of depreciation must be taken into account when preparing the Profit and Loss A/c for the year ended December 31st, 1935, and the Balance Sheet of Messrs. Robertson, Mason & Co., as at December 31st, 1935.

Leasehold Buildings (book value, £8,500).—5% on original cost, £10,000.

Machinery and Plant.—10% on book value, £2,500.

Loose Tools (book value, £245).—Revalued at £210.

After recording the depreciation in the Journal and posting, the nominal account (Depreciation) will be transferred to the Profit and Loss Account.

The items will appear in the Profit and Loss Account as follows :

Dr. Profit and Loss A/c for year ended Dec. 31st, 1935 *Cr.*

	£	s.	d.	£	s.	d.
<i>To Depreciation :</i>						
Leasehold Buildings	500	-	-			
Machinery & Plant ..	250	-	-			
Loose Tools	35	-	-	785	-	-

The Balance Sheet will appear as follows :

Balance Sheet of Robertson, Mason & Co., as at Dec. 31st, 1935

£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
						<i>Leasehold Buildings..</i>	8,500	-	-		
						Less depreciation	500	-	-	8,000	-
						<i>Machinery and Plant</i>	2,500	-	-		
						Less depreciation	250	-	-	2,250	-
						<i>Loose Tools</i>				210	-

RESERVES

There are two classes of reserves which require careful consideration at this stage :

- (a) General Reserves ; and
- (b) Specific or Special Reserves.

A general reserve consists of an amount *set aside out of profits* (note particularly the last five words) with the object of increasing the working capital and generally strengthening the business.

A specific reserve, as the name indicates, is raised by a charge against profits for a specific purpose, to provide against losses through bad debts, or to allow for discount which may be granted.

A point to note carefully here is that while specific reserves are shown in the Balance Sheet as a deduction from the asset, the general reserves are placed on the liabilities side of the Balance Sheet.

At the half-yearly or yearly period, when the books are balanced, a number of adjustments are necessary. Certain expenses, such as rent, rates, wages, light, and heat, will have accrued, and although payments may not be due till later, the amount properly chargeable at the time of the Balance Sheet must be included. On the other hand, certain income may have been accruing but not yet received, such as dividends on investments.

One or two illustrations should make this point clear. If the rent of premises is £400, payable quarterly, the last quarter due, on December 31st, would not be entered until January. Provision would require to be made accordingly, otherwise the correct profit would not be shown. In the same way, when weekly wages are paid, and December 31st falls on a Friday, five days' wages would have to be taken into account, for the money paid would not be entered up until the Saturday.

If an advertising contract is entered into in July and the amount for one year is paid then, the benefit of this expenditure is correctly chargeable against the year in question, and if the amount was £100, £50 would be carried forward to the following year, and this amount would be shown in the Balance Sheet as a temporary asset.

All these adjustments should be recorded in the Journal and posted before closing the books. The Expenses Accounts

are then balanced in the usual way and carried to the Profit and Loss. When this has been done, the amount of the outstanding expenses is carried down to the credit side of the account. In the case of the rent item, the particulars would be entered as follows :

<i>Dr.</i>		Rent A/c		<i>Cr.</i>	
1923		£	1923		£
Mar. 28	To Bank ..	100	Dec. 31	By Profit and Loss ..	400
June 30	„ Bank ..	100			
Oct 31	„ Bank ..	100			
Dec. 31	„ Rent due c/d	100			
		<u>£400</u>			<u>£400</u>
1924			1924		
Jan. 4	To Bank ..	100	Jan. 1	By Balance c/d	100

Alternatively, a Journal entry may be made debiting rent and crediting the landlord.

RESERVING FOR DOUBTFUL DEBTS

Customers with whom you trade have personal accounts in your Ledger. These accounts will generally show debit balances, i.e. money owing to your business. If you have 100 customers, and, in all, they owe you £1,000, it would not be correct to assume that the actual value of this asset is £1,000. Misfortune may befall one who, say, owes £100 ; he may become bankrupt, and the Court may decide that only 10/- for every pound he owes is to be paid to creditors. A debtor may abscond, and his debt may be wholly irrecoverable. Other unfavourable and unforeseen circumstances may arise which have the effect of making full payment a matter of doubt. If your balance sheet is to present the true financial state of your business, a deduction must be made, and the amount of this deduction is generally based on the experience of past years. A reserve of 5% is a usual one, but the allowance will naturally vary in different businesses. All debts can be divided into three classes :

- (1) Wholly Bad.
- (2) Doubtful.
- (3) Good.

Those which are known to be bad are written off through the Journal ; thus :

Bad Debts A/c Dr.
To Sundry Debtors

A specific reserve, *reserve for doubtful debts*, is opened by Journal entries—debiting P. and L. and crediting the reserve with the amount decided upon. To illustrate, let us suppose that the total amount owing to a business, for whose accounts you are responsible, was £10,000 at December 31st, 1933, and £15,000 at the end of 1934. The business keeps a reserve of 5%. Bad debts written off in 1934, £350. Journal entries :

		Dr.			Cr.		
		£	s.	d.	£	s.	d.
1933							
Dec. 31	Profit and Loss .. Dr.	500	-	-			
	To Reserve for Doubtful Debts				500	-	-
	(Being 5% on sundry debtors of £10,000.)						
1934							
Dec. 31	Reserve for Doubtful Debts Dr.	350	-	-			
	To Bad Debts				350	-	-
	(Bad Debts written off at this date.)						
31	Profit and Loss .. Dr.	600	-	-			
	To Reserve for Doubtful Debts				600	-	-
	(To bring up reserve on sundry debtors to 5% on £15,000.)						

At the end of 1933 Profit and Loss would be debited with £500 and this amount would also be deducted from the Sundry Debtors in the Balance Sheet.

It is important to note that the reserve is deducted from the sundry debtors in the inner column on the assets side of the Balance Sheet ; thus :

Sundry Debtors, £10,000
Less Reserve, £500 £9,500

Do not treat this reserve as a liability. It is *not* a liability—it is an account brought into being to prevent showing sundry debtors at a larger amount than is likely to be recoverable.

At the end of 1984 a reserve of £750 is required (5% on £15,000). There was a reserve the previous year of £500. £350 of this has been used for the Bad Debts suffered during the year, leaving £150; £600 must be provided therefore this year, and this amount will be debited to Profit and Loss to show the charge against profits. At the same time £750 will be deducted from the Sundry Debtors in the Balance Sheet.

If only the Final Accounts and Balance Sheet are being prepared the entries could be recorded in the Profit and Loss account as follows :

<i>Dr.</i>							
1934						£	£
Dec. 31	To New Reserve for Bad Debts	..	..	..	..	750	
	„ Bad Debts	..	..	..	..	350	
						<hr/>	
						1,100	
	Less Old Reserve for B/D	..	..	..	..	500	600
						<hr/>	

The first two items above are debited in the P. and L. A/c recording the charges against profits for the new reserve and bad debts; the third item is in effect credited in the P. and L. when it is deducted on the debit side, and so the charges against profits are reduced by the amount of the reserve brought forward. The new reserve of £750 would be deducted from the Sundry Debtors in the Balance Sheet. The book-keeper will find this an easy method to remember; two of the items (Bad Debts and old reserve brought forward) appear in the Trial Balance and will be entered *once* in the ordinary way; the new reserve is an adjustment and will be entered twice—once in the P. and L. and once in the B/S. The details above could be recorded in the P. and L. as follows, without changing the financial position or reasoning.

<i>Dr.</i>							
1934						£	£
Dec. 31	To New Reserve for Bad Debts	..	..	..	..	750	
	Less Old Reserve	..	..	..	..	500	
						<hr/>	
						250	
	Add Bad Debts	..	..	..	..	350	600

Take another example :

Bad Debts for year, £600; Reserve for B/D brought forward £400 (these balances would appear as a debit and credit respec-

tively in the Trial Balance); New Reserve for B/D, £500 (5% on £10,000).

The above could be recorded as before :

Dr.		£	
To New Reserve for Bad Debts	.. .. .	500	
Bad Debts	.. .. .	600	
		<hr/>	
		1,100	
Less Old Reserve for B/D	.. .. .	400	700
		<hr/>	

In this case the reserve brought forward was insufficient to cover the Bad Debts. £200 was required to make this up and a new reserve was required for £500, making a total charge against profits of £700.

This could be recorded as follows :

Dr.		£	£
To Bad Debts	.. .. .	600	
Less Old Reserve for B/D	.. .. .	400	
		<hr/>	
		200	
Add New Reserve for B/D	.. .. .	500	700
		<hr/>	

RESERVING FOR DISCOUNT

For the same reason as we reserve for doubtful debts, so we make provision for discounts to be allowed to customers by the business and discounts to be received from creditors. This allows both debtors and creditors to appear on the Balance Sheet at the true value. The procedure is practically the same as in the reserve for doubtful debts. The reserve is created by Journal entries debiting the P. & L. A/c and crediting the Reserve for Discount A/c.

	Dr.	Cr.
	£	£
Profit and Loss	Dr. 500	
To Reserve for discount on debtors	..	500
(Being 5% on £10,000.)		

The reserve is debited in the Profit and Loss account and deducted from the Debtors in the Balance Sheet.

There is one point here to which special attention must be given. When calculating the reserve to be made for discount,

do not make it for the full amount of the debtors—*make it on the good debtors only*, i.e. the amount *less* the adjusted reserve for doubtful debts. If we had sundry debtors, £5,000, on which a doubtful debts reserve of 5% (£250) has been made; to adjust the reserve for discount to 5% on sundry debtors the Journal entries would be :

			Dr.			Cr.		
	£	s.	d.		£	s.	d.	
Profit and Loss .. Dr.	227	10	—					
To Reserve for discount on debtors					227	10	—	
(Being 5% of £4,750.)								

SECRET OR INNER RESERVES

There is an old adage to the effect that “statistics cannot lie.” Like most generalisations, this statement cannot be accepted without qualification. There is always the active possibility of presenting the truth in a misleading light or the passive idea of omitting altogether to disclose the truth. This thought is quite relevant to a consideration of secret reserves, for the ethical aspect has been the subject of discussion for many years. It is not within our province to take one side or the other, but merely to explain the general scheme. Where high authorities differ no one has the right to dogmatise. What are secret reserves, and how can they be created? A secret reserve is a surplus of assets undisclosed in the Balance Sheet. It may be created by any of the following methods :

- (1) By omission or undervaluation of assets.
- (2) Writing off excessive depreciation.
- (3) By charging capital expenditure to revenue.
- (4) By maintaining assets at cost notwithstanding that they have appreciated heavily.
- (5) Over-provision for contingencies, such as bad debts, etc., and reserve included with the sundry creditors.

Banks, insurance companies, and financial houses, to whom the confidence of the public in their stability is an all-important factor, accumulate reserves out of profits, so that any exceptional drain on their resources may be met without shaking confidence. Another advantage claimed by public companies

is the maintenance of steady dividends, and a further point is that the disclosure of large profits might react detrimentally on the business, bringing in new competition and also giving the advantage to competitors who may not be under obligation to publish balance sheets to use the argument of excessive profits against the public companies concerned.

The reasons advanced against secret reserves are that the published accounts are inaccurate and misleading, and that such reserves are dangerous because while they may be used to meet exceptional losses they may also be utilised to bolster up inefficient management or to conceal reckless speculation.

ILLUSTRATIVE EXERCISE

Trial Balance of Jones and Smith as at June 30th, 1935.

	<i>Dr.</i>	<i>Cr.</i>
	£	£
Stock at July 1st, 1934	4,000	
Purchases	19,000	
Returns Inwards	200	
Wages	4,000	
Factory Power	1,200	
Carriage Inwards	50	
" Outwards	400	
Salaries	2,300	
Discounts allowed	100	
Rent	150	
Insurance	50	
Bad Debts	450	
Plant and Machinery	1,000	
Furniture and Fittings	200	
Motors	2,000	
Sundry Debtors	6,000	
Cash	50	
Bank	250	
Returns Outwards		1,000
Sales		28,000
Discounts Received		200
Reserve for Bad Debts		400
Jones's Capital		6,000
Smith's Capital		2,000
Sundry Creditors		3,800
	<hr/>	<hr/>
	£41,400	£41,400

Make Trading and Profit and Loss A/cs and prepare a Balance Sheet from the above Trial Balance, giving effect to the following adjustments :

On June 30th £50 was due as wages and had not been passed through the books.

£50 rent and £10 insurance had been prepaid.

The Bad Debts Reserve has to be made up to 5% of the Sundry Debtors.

Depreciate Plant by 10%.

Depreciate Furniture by 5%.

Depreciate Motors by 20%.

Interest is to be allowed on capital at the rate of 5%.

Profits are divided, two-thirds to Jones and one-third to Smith.

Stock at June 30th, £6,500.

Dr. Trading Account for Year ended June 30th, 1935 *Cr.*

	£	£		£	£
To Stock.. ..		4,000	By Sales ..	28,000	
„ Purchases ..	19,000		„ Less		
„ Less Returns	1,000	18,000	Returns	200	27,800
„ Wages ..	4,000		„ Stock ..		6,500
„ Add Wages					
owing ..	50	4,050			
„ Factory Power		1,200			
„ Carriage					
Inwards		50			
„ Gross Profit					
(carried to					
P. & L. A/c)		7,000			
		£34,300			£34,300

DEPRECIATION AND RESERVES

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Balance Sheet of Jones and Smith as at June 30th, 1935

		£	£	Assets.	£	£
<i>Liabilities.</i>						
Sundry Creditors	..		3,800	Cash .. /	..	50
Wages owing	..		50	Bank ..	..	250
Jones's Capital	..	6,000		Sundry Debtors	..	6,000
Add Interest	..	300		Less Reserve for Bad Debts	..	300
.. Net Profit	..	2,000				
		8,300		Stock ..	..	50
Smith's Capital	..	2,000		Rent Prepaid	..	10
Add Interest	..	100		Insurance unexpired	..	10
.. Net Profit	..	1,000	11,400	Furniture and Fittings	..	200
				Less Depreciation	..	10
				Motors ..	..	2,000
				Less Depreciation	..	400
				Plant and Machinery	..	1,000
				Less Depreciation	..	100
						<u>£15,250</u>

Note.—Wages owing is added to the amount of wages paid, and is also shown in the Balance Sheet as a liability.

Rent prepaid and insurance unexpired are deducted from the existing debit balances and also shown in the Balance Sheet as assets.

Depreciation is debited to the Profit and Loss A/c and also deducted from the various assets in the Balance Sheet.

Interest is debited to Profit and Loss and also added to the Capital in the Balance Sheet.

All adjustments should appear twice, generally in the Trading or Profit and Loss A/c, and in the Balance Sheet. If in doubt, journalise the adjustments and work out the transactions in Ledger Accounts. The reason for entering these items twice will be clear.

		<i>Dr.</i>			<i>Cr.</i>		
		£	s.	d.	£	s.	d.
1935							
June 30	Trading A/c Dr.	50	—	—			
	To Wages Suspense A/c ..				50	—	—
	(Wages due June 30th)						
	Rent Prepaid A/c .. Dr.	50	—	—			
	Insurance Prepaid A/c .. Dr.	10	—	—			
	To Profit and Loss A/c ..				60	—	—
	Profit and Loss A/c .. Dr.	300	—	—			
	To Bad Debts Reserve ..				300	—	—
	(5% on Sundry Debtors)						
	Profit and Loss A/c .. Dr.	510	—	—			
	To Plant and Machinery ..				100	—	—
	„ Furniture and Fittings ..				10	—	—
	„ Motors				400	—	—
	(For Depreciation)						
	Profit and Loss A/c .. Dr.	400	—	—			
	To Jones's Capital				300	—	—
	„ Smith's Capital				100	—	—
	(For Interest on Capital)						

EXERCISE 117

From the following information prepare the Trading Account, Profit and Loss Account, and Balance Sheet of Messrs. Fox & Freeman, to March 31st, 1922.

Trial Balance—March 31st, 1922

	<i>Dr.</i>	<i>Cr.</i>
	£	£
A. Fox—capital		4,000
J. Freeman—capital		3,500
Stock in trade, April 1st, 1921	7,600	
Sundry debtors	4,300	
Purchases	8,617	
Cash in hand	98	
Sales		20,214
Sundry creditors		3,916
Returns inward	724	
Carriage inward	896	
Bad debts	510	
Rent, rates, taxes, etc.	617	
Bad debt reserve, April 1st, 1921		500
General expenses	1,317	
Plant and machinery, April 1st, 1921	5,000	
Discount	867	392
Additions to plant, October 1921	600	
Fox—drawings	500	
Freeman—drawings	600	
Salaries	700	
Wages	2,016	
Horses and carts, April 1921	560	
Bank overdraft		3,000
	<hr/>	<hr/>
	£35,522	£35,522

Adjustments : Reserve of 5 per cent. on sundry debtors for bad debts.
Plant and machinery to be depreciated 10 per cent. per annum.

	£
Wages owing, March 31st, 1922	138
Rent, prepaid, March 31st, 1922	65
Horses and carts valued at	500
Stock on hand, March 31st, 1922	5,600

Interest to be allowed on capital at 6 per cent. per annum and interest on drawings to be charged : Fox, £12 ; Freeman, £14. Fox is entitled to 20 per cent. of the net profit, then the balance is to be divided equally.

(*Union of Lancashire and Cheshire Institutes, 1922.*)

EXERCISE 118

The following Trial Balance was taken from Messrs. Jones & Lee's books on December 31st, 1935 :

Trial Balance

			Dr.		Cr.		
			£	s. d.	£	s. d.	
Stock, January 1st, 1935	..	..	1,700	- -			
Sundry debtors	..	..	4,000	- -			
Sundry creditors	..	..			3,000	- -	
Discount allowed	..	..	48	- -			
Carriage inwards	..	..	34	- -			
Carriage outwards	..	..	83	- -			
Plant and machinery	..	..	500	- -			
Cash in hand	..	..	20	- -			
Cash at Bank	..	..	740	- -			
Purchases	..	..	6,000	- -			
Salaries	..	..	250	- -			
Returns inwards	..	..	20	- -			
Returns outwards	..	..			48	- -	
Sales	..	..			9,670	- -	
Rent, rates, etc.	..	..	96	- -			
Capital—Jones	..	..			3,000	- -	
Capital—Lee	..	..			1,000	- -	
Drawings—Jones	..	..	500	- -			
Drawings—Lee	..	..	200	- -			
Interest	..	..	120	- -			
Bank charges	..	..	28	- -			
Wages	..	..	369	- -			
Leasehold premises	..	..	950	- -			
Office furniture	..	..	100	- -			
Lorries	..	..	600	- -			
Lorries—Additions, July 1st, 1935	..	..	300	- -			
Bad debts	..	..	62	- -			
			£16,718	- -	£16,718	- -	

Prepare Trading A/c, Profit & Loss A/c, and Balance Sheet, making the following adjustments :

Depreciate lorries, 15 per cent. ; plant and machinery, 10 per cent. ; leasehold premises, 5 per cent. ; furniture and fittings, 10 per cent.

Reserve $2\frac{1}{2}$ per cent. of the sundry debtors for bad debts.

Provide for interest on partners' capital at 5 per cent. p.a.

Wages owing on December 31st were £15.

Rent due but unpaid, £10.

Stock at December 31st, 1935, was valued at £2,300.

Jones receives three-quarters profits, Lee one-quarter.

Joseph Hill and J. B. Clark are in partnership as millers. Profits are shared as to two-thirds to J. Hill and one-third to J. B. Clark. Interest at 5% is allowed on capital, but no interest is charged on drawings. J. B. Clark is entitled to be credited with a salary of £300 per annum. The following Trial Balance was extracted from the books of the firm as on December 31st, 1920 :

9*

You are required to prepare Trading and Profit and Loss Accounts for the year ended December 31st, 1920, and a Balance Sheet as on that date.

In addition to the particulars given above, the following matters must be taken into consideration when preparing the above accounts :

- (a) Depreciation is to be charged as follows : Plant and machinery (excluding the additions), 10% ; motor-lorries, 20% ; office furniture, 5%.
- (b) Make the bad debt reserve up to £600.
- (c) The stock on hand, as on December 31st, 1920, was valued at £12,486.
- (d) Unexpired insurance, as on December 31st, 1920, amounted to £38.
- (e) J. Hill is entitled to 6% interest on his Loan Account, but no entries have been made in the books.

(*R.S.A., Inter., March, 1921.*)

EXERCISE 120.

George McArthur was in business as a dealer in cinematograph films and sundries. On January 1st, 1917, he admitted his manager, Robert Smart, into partnership on the following terms : Each partner was to be allowed 5% interest on capital (to be credited to his Drawings Account), but no interest was to be charged on drawings. Smart's Drawings Account was to be credited with a salary of £250 per annum if the profits were sufficient after charging interest on capital. Profits and losses were to be shared as to two-thirds to McArthur and one-third to Smart, and dealt with through the Drawings Accounts.

The following is the Trial Balance of the firm as on December 31st, 1917 :

Trial Balance						
	Dr.			Cr.		
	£	s.	d.	£	s.	d.
G. McArthur—Capital Account				6,000	—	—
„ —Drawings Account	562	—	—			
R. Smart—Capital Account ..				1,000	—	—
„ —Drawings Account	260	—	—			
Stock (January 1st, 1917) ..	6,842	—	—			
Lanterns and electrical plant	400	—	—			
Furniture and fittings ..	350	—	—			
Purchases	10,874	—	—			

Trial Balance—*continued*

	<i>Dr.</i>			<i>Cr.</i>		
	£	s.	d.	£	s.	d.
Purchase returns				387	-	-
Sales of sundries				3,204	-	-
Sales returns	201	-	-			
Rents for film hire				13,278	-	-
Showroom wages	982	-	-			
Office salaries	875	-	-			
Reserve for bad debts (January 1st, 1917)				350	-	-
Sundry debtors	8,260	-	-			
Discount and Allowances Account				182	-	-
Cash at Bank	321	-	-			
Cash in hand	10	-	-			
Shares in Picture Theatre Company	2,000	-	-			
Bills receivable	421	-	-			
Dividend on shares				200	-	-
Allowances to film renters	138	-	-			
Showroom expenses	342	-	-			
Sundry creditors				5,968	-	-
Advertising	1,840	-	-			
Carriage outwards	243	-	-			
Travelling expenses	195	-	-			
Showroom rent and rates	189	-	-			
Office expenses, rent, rates, and taxes	944	-	-			
Electric current (showroom)	124	-	-			
Bad debts	246	-	-			
Rents received from sub-tenants				50	-	-
Loan from Bankers				6,000	-	-
	£36,619	-	-	£36,619	-	-

You are required to prepare Trading and Profit and Loss Accounts for the year ended December 31st, 1917, and a Balance Sheet as on that date.

In addition to any adjustments arising out of the above particulars, the following matters must be taken into consideration :

- (1) Depreciation is to be written off as follows : Lanterns and electrical plant, 25% ; furniture and fittings, 10%.
- (2) The item " Purchases " includes the cost of a film projector, £100, and this item should be transferred to " Lanterns, etc., Account."

- (3) The stock of films and sundries as on December 31st, 1917, was valued at £7,924.
- (4) The reserve for bad debts is to be made up to an amount equal to 5% on the sundry debtors as on December 31st, 1917.
- (5) The Office Expenses Account includes insurance premiums, £40 of which represents unexpired risks which should be carried forward.

(R.S.A., Inter., May 1918.)

BUSINESS TERMS AND ABBREVIATIONS

Manufacturing A/c.—A Manufacturing Account is similar to a Trading Account; but whereas the latter deals with finished goods, the former is concerned with raw materials and manufacturing expenses.

Loose Tools.—This is an item which frequently appears in exercises and often causes trouble to the student. In engineering works or iron foundries it is the custom to make tools to suit particular jobs. These loose tools should be treated in the same way as stock. To the value of the amount in hand at the beginning should be added the tools made during the period, and the total should appear in the Balance Sheet. In some cases a definite amount of depreciation can be written off, judged by past experience; but generally the revaluation method is preferable.

Cum Div.—This expression means that the amount stated is with dividend. If shares are quoted at £1 2s. cum div., it means that the purchaser will be entitled to the dividend which has been earned.

Debentures are loans to limited companies bearing a fixed rate of interest. The debentures are either redeemable, i.e. repayable after a certain number of years; or irredeemable, i.e. only to be paid off if the company is wound up.

Ex Div.—This means exclusive of dividend. When the dividend referred to in the foregoing example has been paid, the shares would be quoted ex div., which means that the amount is exclusive of dividend.

Voucher = Receipt. Any written statement declaring the payment or receipt of money or value is a voucher; a paper which confirms the truth of anything.

Par = Equal to the nominal value—the value by which it is known. In the case of stocks and shares, when the market price is less than the original price, they are said to be below par (or at a discount); when higher than the original price, they are above par (or at a premium).

et seq. = And the following.

ex cont. = From contract.

Premium.—Stocks and shares are sometimes issued at a price above their nominal value. For example, £1 shares may be issued at 25/—, or they may rise in the market above their nominal value, when they are said to be at a premium. The word is also used in connection with insurance, indicating the annual or other periodical payment due according to the terms of the policy.

Underwriter.—An underwriter is a person who guarantees the capital (or a part of the capital) of a public company before the public has been invited to subscribe. In consideration of this undertaking he receives a commission either in cash or fully paid-up shares, or, it may be, in both. If the public does not subscribe the full amount, the underwriter takes the shares himself or finds approved subscribers to do so. Similarly, a marine insurer is an underwriter because he subscribes his name under each policy of insurance, thereby giving a guarantee that if loss or damage occurs he will be responsible for the amount subscribed by him.

Winding-up.—The closing of all business transactions and the settling of all money matters connected with a joint stock company. This can be done either voluntarily or through an order of the court.

CHAPTER XIX

COMPANY ACCOUNTS

IN the preceding chapters all transactions were associated with business carried on by sole traders or by partnerships. This chapter will discuss the books of account, and other related matter, of groups of people who, in proper legal form, combine as a "corporate body," thereby becoming recognised in law as a "fictitious person," something with a real existence capable of possessing property in its own right, of incurring debts and general obligations, and of suing or being sued in its own name. A body of persons united in this way is called an incorporated company.

How Companies are Incorporated

There are three methods by which incorporation is brought about :

- (1) By Royal Charter. Companies so incorporated are not numerous.
- (2) By Special Act of Parliament—public utility companies, of which railways, gas, water, and dock companies form the best examples.
- (8) By Registration under the Companies Act, 1908, and the subsequent amending Acts of 1913, 1917, and 1929.

Joint Stock Companies

No. 8 is incomparably the most important from the book-keeping standpoint, so much so that our attention will be devoted almost exclusively to this form of enterprise. If you can think in terms of millions, some idea of the popularity and the magnitude of the operations of companies which come under the No. 8 category may be visualised by the knowledge that the amount of capital so invested exceeds £4,000,000,000. These registered companies are known as Joint Stock Companies, and are of three types :

- (a) Those limited by guarantee.

(b) Companies the liability of whose members is not limited.

(c) Companies limited by shares.

The first two (*a* and *b*) can be dismissed in a few words, because the book-keeper will seldom meet with them. It is sufficient meantime to say that (*a*) generally has reference to societies of a social or charitable nature definitely not run for profit, where members guarantee, so long as they remain members and for twelve months thereafter, responsibility for debts, etc., of "such an amount as is required not exceeding —," and (*b*) is a form of incorporation that is not popular—indeed there are only a very few companies incorporated in this way, so few as to be almost negligible.

Public and Private Companies

Now we are free to discuss the third type—companies limited by shares. There are two classes—public and private. The main differences between a public and private company are that the former invites the general public to purchase shares, while the latter definitely prohibits this; a private company must restrict the right to transfer its shares and must limit the number of its members to fifty, exclusive of persons who are in the employment of the company and of persons who, having been formerly in the employment of the company, were, while so employed, and have continued after the determination of such employment to be members of the company. These restrictions do not apply to public companies. Further differences are that the minimum number of members of a private company is two, while seven members are necessary for a public company. Unlike a public company, a private company may commence business immediately it has received its Certificate of Incorporation.

Advantages of Registration

What are the attractions of registration as a public company? There are many, not the least of which is limited liability, which prevents the possibility of the personal estates of members being seized for the payment of the company's debts—a distinct advantage over the position of a sole trader or a partner. The central idea is that a person agrees to purchase a certain number of shares in the company of a stated nominal value. When he has paid this amount his liability ceases. He

may gain considerably by the success attending the company or he may lose the whole of his investment. But when he has actually paid the amount of his shares he is free from care regarding the company's liabilities ; he cannot be called upon to contribute additional capital in the event of the company becoming heavily involved. Another decided advantage is that capital can be raised by inviting the public to invest, and the financial resources thus obtained permit of enterprise and development, add to the company's credit, and are intended also to stimulate co-operation with employees, who are in this way able to acquire an interest in the business. In the case of a sole trader or a partnership, death may mean serious disorganisation, but the death of a member of a company does not normally affect the company's existence. Similarly, the bankruptcy of a member is not a disrupting factor.

Advantage of Private Company over Partnership

The chief advantage of a private company over a partnership is limited liability. Private companies are particularly suitable for business in which the proprietorship is a family affair. This really allows what would normally be a partnership to operate as a company. Sometimes practically all the capital is held by one person, the additional member necessary to make up the statutory minimum being his mere nominee holding a nominal share. This is referred to as a one-man company—in a sense a sole trader, availing himself of the advantages of registration as a limited company.

Differences between Limited Company and Unlimited Partnership

The members of a joint stock company lose their individuality because the company, in law, is a fictitious person. A member of the company may enter into contracts with the company in the same way as anyone who has no proprietary interest.

Creditors may proceed against the property of the joint stock company, but there is no remedy beyond the fixed capital, whereas in a partnership the creditors are able to proceed against the partnership property and also against the private property of each unlimited partner "to the last farthing of his fortune."

In a public limited company shares may be transferred without the consent of the other members. This cannot be done in a partnership.

In a partnership each unlimited partner may take part in the management and legally may bind the firm, but in a joint stock company the rights of management are restricted to an executive body known as directors.

In a partnership the relations of the partners between themselves are regulated by a Deed of Partnership or, if there is no Agreement, by the provisions of the Partnership Act, 1890, whereas in a limited company the powers of the company are laid down in a Memorandum, alterable only by consent of the Court; and the directors' powers are limited by Articles of Association, alterable only by special resolution of the company. If a company has no Articles the "regulations for management of a company limited by shares" (an appendix of the Companies Act designated as Table A) apply.

The capital of a partnership may be increased by additions or by profits or decreased by withdrawals or losses, or any alteration may be made by mutual agreement. Increase or decrease in the capital of a company can only be effected in a special statutory manner.

Forming a Limited Company

The process of forming a public limited company involves the preparation of a Memorandum of Association, an instrument which, among other things, sets forth the objects for which the company exists and the conditions by which these objects are to be achieved. This document is the company's charter of incorporation, and great care is necessary to see that no action is taken which exceeds the powers laid down in the Memorandum; otherwise, such action, being beyond the legal powers of the company, would be null and void. The Memorandum must give information on five specific points:

- (1) The name of the company, the last word of which must be "Limited."
- (2) The location of the registered office.
- (3) The objects.
- (4) A statement that liability is limited.
- (5) The amount of capital and how divided.

Other necessary steps in the formation are the preparation of: (a) Articles of Association (the regulations by which the internal affairs of the company are to be governed); (b) preliminary contracts; (c) a statement of nominal capital; (d) a list of people who have given consent to act as directors; (e) a

statutory declaration that all the requirements of the Act have been complied with.

Requisites of the Memorandum of Companies

<i>Unlimited</i>	<i>Limited by Shares</i>	<i>Limited by Guarantee</i>
(1) Name of the Company.	Name of the Company with the last word "Limited."	Name of Company ; with "Limited," except in cases where formed for education, science, or social purposes.
(2) —	Statement that liability is limited.	Statement showing amount guaranteed in the event of winding-up.
(3) Objects of the Company.	Objects of the Company.	Objects of the Company.
(4) Situation of the Registered Office.	Situation of the Registered Office.	Situation of the Registered Office.
(5) Amount of capital.	Amount of capital.	(See note on page 271.)

Restrictions as to Names

The Companies Act 1929 contains the following provisions with respect to names of companies :

(1) No company shall be registered by a name which—

(a) is identical with that by which a company in existence is already registered, or so nearly resembles that name as to be calculated to deceive, except where the company in existence is in the course of being dissolved and signifies its consent in such manner as the Registrar requires ; or

(b) contains the words "Chamber of Commerce," unless the company is a company which is to be registered under a licence granted in pursuance of the next following section of this Act without the addition of the word "Limited" to its name ; or

(c) contains the words "Building Society."

(2) Except with the consent of the Board of Trade, no company shall be registered by a name which—

- (a) contains the words "Royal" or "Imperial" or in the opinion of the Registrar suggests, or is calculated to suggest, the patronage of His Majesty or of any member of the Royal Family or connection with His Majesty's Government or any department thereof; or
- (b) contains the word "Municipal" or "Chartered" or in the opinion of the Registrar suggests, or is calculated to suggest, connection with any municipality or other local authority or with any society or body incorporated by Royal Charter; or
- (c) contains the word "Co-operative."

The name can be changed by special resolution and the sanction, in writing, of the Board of Trade.

Objects

The objects of the company may be altered by special resolution confirmed by the Court, on petition, for the purpose of enabling the company to carry on its business more economically or more efficiently; to enlarge or change the local area of its operations; to attain its *main* purpose by new or improved means; to carry on some business which under existing conditions may advantageously be combined with the business of the company; or to restrict or abandon any of the objects specified in the memorandum.

Registered Offices

Registered offices may be changed by giving notice to the Registrar, but what is called the domicile of the company cannot be changed except by passing a special resolution and getting permission from Parliament. This means that if the company's registered office is in England, it cannot be changed to Scotland, because it is domiciled in England. England, for the purposes of the Act, includes Wales.

Capital

The Memorandum *names* the maximum amount of capital which the company can issue and upon which duty is paid. This amount is therefore called the *nominal capital*. That portion of capital which has been issued for subscription is appropriately called the *issued capital*. It does not follow that all

the issued capital will be subscribed by the public, and therefore a further distinction is considered to be necessary. The part actually subscribed is called the *subscribed capital*. For theoretical purposes it is perhaps as well to note this distinction, although it has no practical significance. In the Balance Sheet only the *subscribed capital* can be shown as a liability. *Called-up capital* represents the amount of the subscribed capital actually called up, the remainder being a contingent liability of the shareholders. *Paid-up capital* may differ from the called-up, the difference, of course, being calls in arrear; that is to say, amounts due but not yet paid by holders of shares. The surplus of the liquid assets over the current liabilities of a company is sometimes referred to as the *working capital* of the business. The term "capital" is here used in its wider sense and has no reference to the shares of the company or any liability due to shareholders.

The amount of capital cannot be reduced or increased except in accordance with the powers provided under the Companies Act. This is a point to note, because in the case of a sole trader or a partnership the capital may fluctuate considerably. Another point to remember is that the term "capital" is understood to mean the amount authorised to be issued as shown in the Memorandum—the "nominal capital."

How Capital is Divided into Classes of Shares

The capital of a company is divided into various classes of shares—Preference Shares, of which there are several types; Ordinary Shares; Deferred Ordinary Shares; Deferred, Management, or Founders Shares; and Bonus Shares.

Preference Shares generally take precedence as to payment of dividend, and in some cases a prior right to return of capital in the event of the winding-up of the company. Cumulative Preference Shares carry preferential rights to dividend from one year to another; that is to say, that arrears of dividend accumulate and are paid out of profits when made. Although no entry is made in the company's books of account, the fact should be stated on the Balance Sheet, and the arrears of dividend would have to be paid before any dividend could be paid to holders of other shares.

Deferred, Management, or Founders Shares are of a special class, and details must be given in the prospectus. Generally the holders do not participate in dividends until the other share-

holders have been paid an agreed minimum. The value of the shares generally rests on the substantial voting powers which they confer, and frequently the profits are also considerable because a common provision is that after a certain fixed rate of dividend has been paid to the other classes of shareholders the balance of profits is divided among the holders of Deferred, Management, or Founders Shares, which are generally of a small capital value. Much can be said against this class, and much is said at times by the investing public, to whom, as a rule, they are not available and with whom they are not popular. Still, they serve a good purpose as an equitable method of purchasing goodwill. The power to purchase these shares is generally confined to the originators of the company and their friends.

Difference between Stock and Shares

The difference between Stock and Shares is that the latter are definite specified units—for example, 1,000 shares of £1 each, numbered 1 to 1,000; but Stock is consolidated into a block and may be transferred in units of a fixed amount, £1 or £5, or multiples thereof, or even in fractions of one pound. It will be clear, therefore, that stock cannot bear distinctive numbers, and also that it must be paid in full.

Debentures

Debentures are loans for a specified period, and the holders as such have no proprietary interest in the company; they are creditors of the company, and interest accrues and is chargeable whether the company makes profits or not. Debentures registered in the books of the company can be transferred in the same way as shares, and, as fully paid shares can be converted into stock, so debentures can be consolidated into one mass and issued as debenture stock. A Mortgage Debenture is one which gives to the holder as security a mortgage on assets or an asset of the company.

Shares Issued at a Discount

Previous to the Companies Act of 1929 shares in a joint-stock company could not be issued at a discount; that is to say, if a company's shares were of the nominal value of £1 each, these shares could not be *issued* at a price lower than £1 each. Under a valid and registered contract the company was permitted to buy property for shares.

Now, under Section 46 of the Companies Act of 1929, a company is permitted, if so authorised by its Articles, to issue preference shares which are, or at the option of the company are to be liable, to be redeemed :

Provided that—

- (a) no such shares shall be redeemed except out of profits of the company which would otherwise be available for dividend or out of the proceeds of a fresh issue of shares made for the purposes of the redemption ;
- (b) no such shares shall be redeemed unless they are fully paid ;
- (c) where any such shares are redeemed otherwise than out of the proceeds of a fresh issue, there shall out of profits which would otherwise have been available for dividend be transferred to a reserve fund, to be called “ the capital redemption reserve fund,” a sum equal to the amount applied in redeeming the shares, and the provisions of this Act relating to the reduction of the share capital of a company shall, except as provided in this section, apply as if the capital redemption reserve fund were paid-up share capital of the company ;
- (d) where any such shares are redeemed out of the proceeds of a fresh issue, the premium, if any, payable on redemption, must have been provided for out of the profits of the company before the shares are redeemed.

Details of the Redeemable Shares shall be included in every Balance Sheet, and the date on or before which the shares are liable to be redeemed shall also be stated.

Section 47 of the Act of 1929 also provides that a company may issue at a discount shares of a class already issued, provided that

- (a) the issue of the shares at a discount must be authorised by resolution passed in general meeting of the company, and must be sanctioned by the Court ;
- (b) the resolution must specify the maximum rate of discount at which the shares are to be issued ;
- (c) not less than one year must at the date of the issue have elapsed since the date on which the company was entitled to commence business ;

- (d) the shares to be issued at a discount must be issued within one month after the date on which the issue is sanctioned by the Court or within such extended time as the Court may allow.

Every prospectus relating to the issue of the shares and every Balance Sheet issued subsequently must contain particulars of the discount allowed on the issue or so much of that discount as has not been written off at the date of the issue of the document in question.

The book-keeping entries relating to issue of shares at a discount would be similar to the entries on the issue of debentures at a discount.

Concerning Application for and Allotment of Shares

Let us assume that the public has been invited to take shares in a company. This invitation is made by means of a prospectus, which sets forth the prospects of the enterprise, generally in the most attractive way. The prospectus is accompanied by the necessary forms of application for shares, and arrangements are made with bankers to receive applications, together with a specific amount required to be deposited for each share for which application has been made. The bankers would be requested to open an Application Account and to make a daily return to the company of all applications received. When dealing with the affairs of such an undertaking, we begin by preparing an Application and Allotment List. Here is an example :

THE IMAGINARY CO., LTD.,

Issue of 20,000 £1 Shares at par, payable

2/6 on application.

5/- on allotment.

5/- First Call.

7/6 Second and Final Call.

The Allotment List would contain columns for the following : Consecutive Number of Application, Name, Address, Description, Number of Shares Applied For, Deposit Paid, Number of Shares Allotted, Distinctive Numbers, Total Amount Payable on Allotment, Balance Payable on Allotment, Balance Returnable. (Ruling given on page 280.)

As the applications are received from the bankers, they should be numbered consecutively and listed. On the day appointed for closing the list, a careful comparison should

APPLICATION AND ALLOTMENT BOOK

Date.	Number of Application.	Name of Applicant.	Address.	Occupation.	Number of Shares Applied for.	Amount of Deposit paid upon Application.		Number of Shares Allotted.	Distinctive Numbers of Shares Allotted.		Total Amount due on Application and Allotment.		Amount of Deposit (if any) Returnable.		Further Sum due on Allotment.		Share Register.	Allotment Money.	
						£	s. d.		From	To	£	s. d.	£	s. d.	£	s. d.		Cash Book Folio.	Date Paid.
1930 Jan. 3	15	Mills, George	165, Graham St., London, E.C.	Solicitor	250	31	5	250	1	250	93	15	-	-	62	10	19	9	1930 Jan. 10
" 5	16	Williams, Henry	17, Cornhill, London, E.C.	Banker	500	62	10	500	251	750	187	10	-	-	125	-	20	4	" 11
" 6	19	Jameson, Albert	91, Everest Rd., West Green, N.	Pawn-broker	25	3	2 6	-	-	-	-	-	3	2 6	-	-	-	-	" 13
" 9	20	Ringwood, Sir Edgar	77, Eastcheap, London, E.C.	Knight	1,000	125	-	1,000	1,751	2,750	375	-	-	-	250	-	27	7	" 13
" 20	23	Cope, Alfred	99, Fymmes Rd., London, N.	Dentist	50	6	5	50	2,761	2,800	18	15	-	-	12	10	67	-	" 23
" 20	24	Edmond, Henry	97, Regent St., London, W.	Solicitor	250	31	5	250	1,001	1,250	93	15	-	-	62	10	91	12	" 23
			Carried forward		2,075	253	7 6	2,050	(Signed) A. GREEN, Chairman		788	15	-	3	2 6	512	10	-	

IMAGINARY CO., LTD.

SHARE REGISTER

Name of Member: HENRY EDMOND.
Address: 97, Regent Street, London, W.

Occupation: Solicitor.

Date of commencing to be a Member: January 23rd, 1930.
Date of ceasing to be a Member: October 1st, 1930.

SHARES DISPOSED OF.										SHARES ACQUIRED.					BALANCE.			
Date.	No. of Trans- fers Decd.	Folio in Trans- fer Regis- ter.	No. of Shares	Distinctive Numbers of Shares.		Amount of Capital Paid up. £ s. d.	Date.	No. of Allotment or Transfer.	No. of Shares	Distinctive Numbers of Shares		Details.	Folio.	Amount of Capital Paid up. £ s. d.		Shares	Capital Paid up. £ s. d.	
				From	To					From	To			£ s. d.	£ s. d.			
1930 Oct. 1	177	17	750	(1,001 1,250) (2,501 3,000)		750 - -	1930 Jan. 20	Allotment 5	250	1,001 1,250	Cash, Application Money Allotted Cash, Allotment Money Cash, First Call CB 20 CB 27 " Second Call Transferred ..	CB 7 AB 9 CB 12 CB 20 CB 27 TR 9		31	5 -	250	93 15 -	
							" 23										62 10 -	156 6 -
							Feb. 10 " 28 Mar. 9										93 15 -	250 -
								Transfer 142	500	2,501 3,000			500 -	750 -	nil	750 -		
									750					750 -				

TRANSFER REGISTER

Number of Transfer.	Date Transfer Lodged.	Date of Transfer Deed.	TRANSFEROR'S			SHARES TRANSFERRED.					TRANSFEREE'S			Transferor's Folio in Share Register.	Transferee's Folio in Share Register.	Number of New Certificate.
			Name.	Address.	Occupation.	Num-ber.	Amount per Share paid.	Capital paid up. £ s. d.	Distinctive Numbers.		Name.	Address.	Occupation.			
23	1930 Feb. 3	1930 Jan. 31	Williams, Henry	17, Cornhill, London, E.C.	Banker	250	£1	250 - -	251	500	Wilkins, John	81, Braemar Rd., South- ampton	Civil Engineer	109	693	
762	Oct. 1	Sept. 29	Edmond, Henry	97, Regent St., London, W.	Solicitor	750	-	750 - -	(1,001 1,250) (2,501 3,000)		Swann, James	63, Albert Rd., York	Farmer	131	724	
											(Signed)	A. GREEN, Chairman.				

be made with the amounts entered by the bank in the Bank Pass Book. These formalities having been carried through, the directors of the company would proceed to make the allotment, after which the sums payable on allotment would be filled in on the Application List, and the balance (in this case 5/- on each share) due on allotment inserted.

Suppose there are more applications for shares than there are shares available. In this case the deposits received would be more than sufficient to pay the amount due on application and allotment. The sum returnable would therefore be placed in the last column of the Application List. Then it would be necessary to add up the list and balance.

In the case of the Imaginary Company, the amounts due on allotment total £5,000, and the amount of the deposits received, less the amount returned deducted from the £5,000, should correspond with the balance due on the allotment column.

A Letter of Regret

To all unsuccessful applicants a letter of regret should be sent, returning the amount of the deposit paid on application.

Dealing with Cash

The next thing to be done is to arrange with the bankers to receive further amounts due, and the Cash Book would be written up from the Bank Pass Book. Accounts will have been opened in the Share Ledger in the names of persons to whom shares have been allotted, and the amounts payable posted from the Application and Allotment Lists, and the money received would, of course, be posted from the Cash Book.

Accounts in the General Ledger

Come now to accounts in the General Ledger, and consider Application and Share Capital Accounts. All the money due on application for shares allotted would be debited to the Application Account and credited to the Share Capital Account. The Application Account would then be credited from the Cash Book with the total amount of deposits received and

debited with the sums returned. An Allotment Account will next be opened and debited with the total sum due on allotment of the shares. Any sums due on application in respect of allotment made would be transferred from the Application Account to the credit of the Allotment Account, which will be balanced by the amount as shown by the Cash Book, except on allotment payments, assuming that all sums payable in respect of allotments have been received.

All this information would be passed through the books by means of Journal entries, giving narratives carefully and showing the date of allotment.

ILLUSTRATIVE FORMATION EXERCISE

The X. Y. Co., Ltd., was registered with a capital of £61,000, divided into 40,000 £1 6% Cumulative Preference Shares, 20,000 £1 Ordinary Shares, and 20,000 1s. Deferred Shares. The directors of this company and their friends took the whole of the Deferred Shares and paid the company £1,000. An invitation to the public to subscribe for 10,000 Ordinary Shares, and the whole of the Preference Shares, was made, and upon the following terms :

6% Preference Shares : 5s. on application, 5s. on allotment, and the balance in three months from date of allotment.

Ordinary Shares : 2s. 6d. on application, 8s. 6d. (including 1s. per share premium) on allotment, and the balance at three months' notice of call.

In addition, it was decided to issue at the same time £30,000 of 5% Debenture Stock at a discount of 2%, 10% being payable on application and the balance on allotment.

Applications were received for 42,000 Preference Shares, 22,000 Ordinary Shares, and £30,000 of Debenture Stock, and allotments were duly made. Letters of Regret were sent to applicants for 2,000 Preference Shares and 10,000 Ordinary Shares together with the amount of application money received. To a number of applicants for Ordinary Shares full allotment was not made, and the excess application money was credited to Allotment A/c. All amounts due were duly paid with the exception of the Final Call on 1,000 Preference Shares.

Set out the records of the foregoing in the books of the company.

How to Proceed

Carefully reason out each point. Do not be in a hurry. Later on, when you have had sufficient practice, the whole scheme will appear very simple, and then speed and accuracy will have become a habit. There is nothing abstruse or complicated; all that is necessary is clear thinking. The whole process of taking point by point is here illustrated.

“The X. Y. Co., Ltd., was registered with a capital of £61,000, divided into 40,000 £1 6% Cumulative Preference Shares, 20,000 £1 Ordinary Shares, and 20,000 1s. Deferred Shares.”

This is a statement of fact, necessary for the proper understanding of the position, but no entry in the books is necessary, though, in accordance with the provisions of the Companies Act, the information must be incorporated in the Balance Sheet. We simply learn that the company has a registered or nominal capital of £61,000 divided into three classes of shares. £61,000 is the maximum capital and the amount on which duty has been paid.

The next sentence states that :

“The directors of this company and their friends took the whole of the Deferred Shares and paid the company £1,000.”

Here we have a transaction. The directors receive shares of the nominal value of £1,000, and in consideration pay to the company £1,000. Two acts are performed—one, the receipt of £1,000, and, two, the giving of the share certificates to the directors. All that is necessary is to make an entry in the Journal as follows :

Deferred Share Application and Allotment A/c ..	Dr.	£1,000	
To Deferred Share Capital A/c			£1,000

This means that the directors, according to the Register of Deferred Shares, are liable for £1,000 in respect of the shares allotted to them. The Application and Allotment A/c is recognised as the *one account* in which the liability of the deferred shareholders is concentrated. When payment is received by the company, it is credited to this account in satisfaction of the debt.

The next stage in the exercise tells us of the terms upon which the issue is made to the public.

“An invitation to the public to subscribe for 10,000 Ordinary Shares and the whole of the Preference Shares was made upon the following terms :

“6% Preference Shares : 5*s.* on application, 5*s.* on allotment, and the balance in three months from date of allotment.

“Ordinary Shares : 2*s.* 6*d.* on application, 8*s.* 6*d.* (including 1*s.* per share premium) on allotment, and the balance at three months' notice of call.

“In addition, it was decided to issue at the same time £30,000 of 5% Debenture Stock at a discount of 2%, 10% being payable on application, and the balance on allotment.”

Here again we have a statement which does not require any record, as no transaction is involved. The statement is none the less important, because it sets out the terms upon which the capital will be issued and the value of each class of shares available for subscription. A separate register of each class of shares and debentures is made. These registers record the names and addresses of those persons receiving allotments. From these books the total values of applications are obtained for the purpose of making the Journal entries.

“Applications were received for 42,000 Preference Shares, 22,000 Ordinary Shares, and £30,000 of Debenture Stock, and allotments were duly made. Letters of Regret were sent to applicants for 2,000 Preference Shares and 10,000 Ordinary Shares together with the amount of application money received. To a number of applicants for Ordinary Shares full allotment was not made, and the excess application money was credited to Allotment A/c. All amounts due were duly paid with the exception of the Final Call on 1,000 Preference Shares.”

Take the Preference Shares first. On reference to the Application Lists, or Register, it is found that applications for 42,000 were received and that £10,500 in cash accompanied these applications. The £10,500 must be recorded in the Cash Book on the debit side, but, as the company offers 40,000 shares only, the Journal entry must be for this number, and is as follows :

Preference Share Application A/c	..	..	Dr.	£10,000	
To Preference Share Capital A/c	..	..	..		£10,000

Before proceeding to allotment, it is necessary to dispose of those applications which were unsuccessful. Letters of Regret are sent to these applicants, together with a refund of their application money of £500—and this amount is credited in the Cash Book and debited to the Preference Share Application A/c. Having disposed of the applications, it now becomes necessary to record the indebtedness of the Preference Shareholders in respect of allotment. Hence the following Journal entry :

Preference Share Allotment A/c	..	..	Dr.	£10,000	
To Preference Share Capital A/c	..	..	..		£10,000

On receipt of the amount due on allotment, the Cash Book is debited and the Preference Share Allotment A/c credited. There remains to be dealt with the Final Call of 10s. per share. The procedure is the same as that applied to the allotment. Here is the Journal entry :

Preference Share First and Final Call A/c	..	..	Dr.	£20,000	
To Preference Share Capital A/c	..	..	..		£20,000

In this case the cash received and debited in the Cash Book is £19,500, and is £500 less than the amount to which the company is entitled. This £500 will appear as a debit balance due by the holders of shares who have not yet paid the Final Call of 10s. per share (now overdue). Such debit balances are known as Calls in Arrear. Thus we have completed the records of the Preference Shares.

Similar entries are made in respect of both Ordinary Shares and Debentures. There are, however, one or two points of difference. Application money in respect of 2,000 Ordinary Shares was retained by the company and credited to allotment. This means that some of the applicants were given a smaller number of shares than they applied for, and that with the letters of allotment sent to them the amount payable on allotment was reduced by the surplus application money retained. It becomes necessary, however, to transfer the amount retained from the credit of the Application A/c to the credit of the

Allotment A/c, and this is done by means of the following Journal entry :

Ordinary Share Application A/c Dr.	£250	
To Ordinary Share Allotment A/c		£250

In the 8s. 6d. per Ordinary Share due on allotment, there is 1s. premium. A separate account in the Ledger is necessary to record this, as the premium is *not capital*.

Ordinary Share Allotment A/c Dr.	£4,250	
To Ordinary Share Capital A/c		£3,750
„ Premium A/c		500

Although the total amount of cash received for Debentures was £29,400, the Debenture Stock A/c must record the full liability of the company, namely, £30,000. Therefore, in addition to the entry of £3,000—Debenture Stock Application A/c Dr. to Debenture Stock A/c—the following Journal entry is necessary :

Debenture Stock Allotment A/c Dr.	£26,400	
Debenture Discount A/c	600	
To Debenture Stock A/c		£27,000

The following is a complete key :

Journal

	L.F.	Dr. £	Cr. £
Deferred Share Application and Allotment A/c Dr.		1,000	
To Deferred Share Capital A/c			1,000
(Being 1s. per share due on 20,000 shares.)			
Preference Share Application A/c Dr.		10,000	
To Preference Share Capital A/c			10,000
(Being 5s. per share due on 40,000 shares.)			
Ordinary Share Application A/c Dr.		1,250	
To Ordinary Share Capital A/c			1,250
(Being 2s. 6d. per share due on 10,000 shares.)			
Debenture Stock Application A/c Dr.		3,000	
To Debenture Stock A/c			3,000
(Being 10% due on £30,000 of Debenture Stock.)			

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	L.F.	Dr. £	Cr. £
Preference Share Allotment A/c Dr.		10,000	
To Preference Share Capital A/c			10,000
(Being 5s. per share due on 40,000 shares.)			
Ordinary Share Allotment A/c Dr.		4,250	
To Ordinary Share Capital A/c			3,750
„ Premium A/c			500
(Being 8s. 6d. per share due on 10,000 shares.)			
Debenture Stock Allotment A/c Dr.		26,400	
Debenture Discount A/c		600	
To Debenture Stock A/c			27,000
(Being 88% due on £30,000 of stock, Discount 2%)			
Ordinary Share Application A/c Dr.		250	
To Ordinary Share Allotment A/c			250
(Being excess application money of 2s. 6d. per share on 2,000 shares transferred to Allotment A/c.)			
Preference Share First and Final Call A/c Dr.		20,000	
To Preference Share Capital A/c			20,000
(Being 10s. per share due on 40,000 shares.)			

Dr.	Cash Book	Cr.
	£	£
To Deferred Shares Application and Allotment	1,000	By Preference Shares Application 500
„ Preference Shares Application	10,500	„ Ordinary Shares Application 1,250
„ Ordinary Shares Application	2,750	
„ Debenture Stock Application	3,000	
„ Preference Shares Allotment	10,000	
„ Ordinary Shares Allotment	4,000	
„ Debenture Stock Allotment	26,400	
„ Preference Shares First and Final Call	19,500	

Ledger

Dr.	Preference Share Capital	Cr.
		£
	By Application	10,000
	„ Allotment	10,000
	„ First and Final Call	20,000
		<u>£40,000</u>

<i>Dr.</i>	Deferred Share Capital	<i>Cr.</i>
		£
	By Application and Allotment	1,000

<i>Dr.</i>	Ordinary Share Capital	<i>Cr.</i>
		£
	By Application	1,250
	„ Allotment	3,750
		<u>£5,000</u>

<i>Dr.</i>	Debenture Stock	<i>Cr.</i>
		£
	By Application	3,000
	„ Allotment	26,400
	„ Discount	600
		<u>£30,000</u>

<i>Dr.</i>	Preference Share Application	<i>Cr.</i>
		£
To Preference Share Capital 10,000	By Cash	10,500
„ Cash 500		
<u>£10,500</u>		<u>£10,500</u>

<i>Dr.</i>	Ordinary Share Application	<i>Cr.</i>
		£
To Ordinary Share Capital 1,250	By Cash	2,750
„ Cash 1,250		
„ Allotment 250		
<u>£2,750</u>		<u>£2,750</u>

<i>Dr.</i>	Debenture Stock Application	<i>Cr.</i>
		£
To Debenture Stock .. <u>3,000</u>	By Cash	<u>3,000</u>

Deferred Share Capital Application and Allotment				Dr.	Cr.
To Deferred Share Capital	£	1,000	By Cash	£	1,000
Preference Share Allotment				Dr.	Cr.
To Preference Share Capital	£	10,000	By Cash	£	10,000
Ordinary Share Allotment				Dr.	Cr.
To Ordinary Share Capital	£	3,750	By Cash	£	4,000
„ Premium	500		„ Ordinary Share Application		250
	£4,250				£4,250
Debenture Allotment				Dr.	Cr.
To Debenture Stock	£	26,400	By Cash	£	26,400
Ordinary Share Premium				Dr.	Cr.
					£
				By Ordinary Share Allotment	500
Debenture Stock Discount				Dr.	Cr.
To Debenture Stock	£	600			
Preference Share First and Final Call				Dr.	Cr.
To Preference Share Capital	£	20,000	By Cash	£	19,500
			„ Balance		500
	£20,000				£20,000

Shares Issued at a Premium

Shares or debentures may be issued at a premium, i.e. the applicant may have to pay more for his shares than their nominal value. The amount received in premium on shares is a Capital Profit (as distinct from ordinary profits, which are called Revenue Profits). Therefore, instead of crediting it to Profit and Loss A/c, it is either shown in the Balance Sheet (on the liabilities side) as "Premiums on Shares" or is transferred to a Reserve A/c.

Illustration.—On March 1st, 1924, the Oregon Company, Ltd., issued 10,000 Preference Shares of £1 each at a premium of 2s. 6d. per share. 5s. per share, including premium, was payable on application; 2s. 6d. on allotment; 5s. on April 1st, and 10s. on June 1st. The issue was fully subscribed and allotted on March 12th. All calls were duly paid, with the following exceptions:

On 50 shares no payment was made except the application money;

On 200 shares the call on June 1st was not paid.

Dr.		Premium on Preference Shares A/c				Cr.		
				1924 Mar. 12	By Application A/c premium of 2/6 on 10,000 shares	£	s.	d.
						1,250	-	-

Dr.					Preference Shareholders' Application A/c					Cr.		
1924 Mar. 1	To Pref. Share Cap.	£	s.	d.	1924 Mar. 12	By Cash received in respect of appli- cations	£	s.	d.			
		1,250	-	-								
	„ Premium.	1,250	-	-				2,500	-	-		
		£2,500	-	-				£2,500	-	-		

Dr.		Preference Shareholders' Allotment A/c					Cr.		
1924 Mar. 12	To Pref. Share Cap.	£	s.	d.	1924 Mar. 19	By cash received in respect of allot- ment	£	s.	d.
		1,250	-	-			1,243	15	-

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Dr. **First Call on Preference Shares A/c** *Cr.*

1924		£	s.	d.	1924		£	s.	d.
Apr. 1	To Preference Share Capital	2,500	-	-	Apr. 12	By Cash received in respect of First Call	2,487	10	-

Dr. **Second Call on Preference Shares A/c** *Cr.*

1924		£	s.	d.	1924		£	s.	d.
June 1	To Preference Share Capital	5,000	-	-	June 10	By Cash received in respect of Second Call	4,875	-	-

Balance Sheet of the Oregon Co., Ltd., as at —

	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
<i>Capital :</i>												
10,000 Preference Shares of £1 each fully paid	£10,000	-	-									
<i>Less calls in arrear</i> ..	143	15	-	£9,856	5	-						
<i>Premium on Preference Shares</i>				1,250	-	-						

Debentures Issued at a Discount

Debentures may be issued at a discount, i.e. the applicant may have to pay less for his debentures than their nominal value. This discount could be treated as an ordinary loss to the business and debited to Profit and Loss A/c, but it is more usual to treat it as a fictitious asset (such as Preliminary Expenses), and to write it off over a period of years.

Illustration.—On October 1st, 1923, the Tale Coal Co., Ltd., issued 5,000 6% Irredeemable Debentures of £1 each at a discount of 1s. 3d. each. The whole issue was subscribed and paid in full on October 10th.

Dr. **Debenture Discount A/c** *Cr.*

1923		£	s.	d.					
Oct. 1	To discount on 5,000 £1 Debentures @ 1/3 each	312	10	-					

Dr. Debenture Holders' A/c *-* *Cr.*

1923			1923		
Oct. 1		£ s. d.	Oct. 19		£ s. d.
	To amount due in respect of 5,000 £1 Debentures issued @ 18/9 each ..	4,687 10 -		By Cash	4,687 10 -

Dr. Debentures A/c *Cr.*

1923			1923		
Oct. 1		£ s. d.	Oct. 19		£ s. d.
				By 5,000 Debentures of £1 each ..	5,000 - -

Note.—The Journal entry on October 1st would be :

			<i>Dr.</i>			<i>Cr.</i>		
		Fol.	£	s.	d.	£	s.	d.
Debenture Holders' A/c	<i>Dr.</i>		4,687	10	-			
Debenture Discount A/c	<i>Dr.</i>		312	10	-			
To Debentures A/c	..					5,000	-	-
(Amount due in respect of 5,000 £1 Debentures)								

EXERCISE 121

On January 30th, 1930, 10,000 Ordinary Shares of £1 each of J. Smith & Sons, Ltd., were offered to the public on the following terms : 2s. per share on application ; 3s. per share on allotment, and the balance as called.

- Feb. 4—Applications were received for 12,000 shares.
 „ 5—The directors allotted 10,000 shares, and returned the application money on the other 2,000 to non-allottees.
 „ 9—Received £1,425 in respect of allotments.
 „ 10—Received balance of allotment money.
 April 10—Made a call of 4s. per share to be paid on or before May 1st.
 „ 30—Received £750 in respect of the first call.
 May 1—Received £1,100 on account of the first call.
 June 9—Made a further call of 2s. per share to be paid on or before June 30th.
 „ 28—Received £450, of which £100 was in respect of the first call.
 „ 30—£625 paid in respect of the second call.

Enter the above transactions in the books of the company, and show how they would appear in the Balance Sheet.

EXERCISE 122

On March 1st, 1930, R. Wilson & Co., Ltd., offered to the public for subscription 20,000 Ordinary Shares of £1 each on

the following terms : *2s. 6d.* per share on application ; *2s. 6d.* per share on allotment, and the balance in calls of *5s.* each, at periods of not less than three months apart.

- Mar. 5—Applications for 23,000 shares were received.
 „ 6—The directors allotted 20,000 shares and returned the application money to non-allottees.
 „ 9—Received £2,100 in respect of allotments.
 „ 10—Received balance of allotment money.
 June 1—Made call of *5s.* per share to be paid by June 6th.
 „ 6—Received £3,000 in respect of first call.
 „ 7—Received £1,400 „ „ „
 „ 8—Received £400 „ „ „
 Sept. 1—Made calls of *5s.* per share to be paid by September 6th.
 „ 6—Received £4,000 in respect of second call.
 „ 7—Received £800 „ „ „

Enter the above transactions in the books of the company, and show how they would appear in the Balance Sheet.

EXERCISE 123

The Elite Company, with a Nominal Capital of £20,000 in £1 Ordinary Shares, purchased the business of J. Brown for £5,000, £4,000 of which was paid in £1 fully paid Ordinary Shares and £1,000 in cash. The following are the assets and liabilities taken over by the company from J. Brown :

Stock	£1,250
Sundry debtors	960
Furniture	240
Premises	3,000
Sundry creditors	950

The public subscribed for 16,000 £1 Ordinary Shares and paid *5s.* per share on application, *10s.* on allotment, and *5s.* on First and Final Call.

Make the entries necessary to record the above in the books of the company, set out the Ledger Accounts and give the Balance Sheet.

EXERCISE 124

The Progressive Company issued a prospectus inviting the public to subscribe for 20,000 £1 Ordinary Shares, 20,000 £1 6%

Preference Shares, and £10,000 5% Mortgage Debentures on the following terms :

		<i>Ordinary.</i>	<i>Preference.</i>	<i>Debentures.</i>
Application		2s. 6d.	5s.	25%
Allotment		7s. 6d.	10s.	75%
Call		5s. 0d.	5s.	—
Call		5s. 0d.	—	—

The whole of the issue was subscribed for and paid with the exception of the Final Call on 1,000 Ordinary Shares.

Make out Cash Book and Journal entries, and set out the Ledger Accounts.

EXERCISE 125

The New Progressive Company Limited offered the public for subscription 20,000 Ordinary Shares of £1 each, 10,000 Preference shares of £1 each (offered at 21/- a share), and £10,000 Debentures at 97.

The ordinary shares were payable 2/6 a share on application ; 7/6 on allotment, and 10/- when called. Applications were received for 22,000 shares. The application money was returned to applicants for 1,000 shares and the remainder received in excess was transferred to the Allotment A/c. 8,000 preference shares were applied for and 3/6 a share was paid on application (including premium), 7/6 on allotment, and the remainder in two calls of 5/- each. The debentures were fully subscribed ; 10% was paid on application and the remaining 87% on allotment. Record the above in the appropriate books, post and produce a balance sheet, assuming all calls were made and paid.

EXERCISE 125A

Continuing the previous exercise, assume the directors later offer the remainder of the preference shares to the public at 20/6. These were taken up ; 2/6 was paid on application (including premium), 8/- on allotment, and 10/- a month later. An applicant for 100 shares had not paid the call at balancing time. The directors also issued a further 5,000 ordinary shares at 20/3 each to A. Brown. The amount due was paid at once. A further £3,000 debentures were issued at 97½, for which payment was received at once. Prepare the books and accounts to

show the transactions since the last balance sheet and finally prepare a balance sheet at this stage.

FORFEITED SHARES

The regulations regarding forfeited shares are dealt with in the following clauses of the Companies Act, 1929, Table A :

23. If a member fails to pay any Call or instalment of a Call on the day appointed for payment thereof, the directors may, at any time thereafter during such time as any part of such Call or instalment remains unpaid, serve a notice on him requiring payment of so much of the Call or instalment as is unpaid, together with any interest which may have accrued.
24. The notice shall name a further day (not earlier than the expiration of fourteen days from the date of the notice) on or before which the payment required by the notice is to be made, and shall state that in the event of non-payment at or before the time appointed the Shares in respect of which the Call was made will be liable to be forfeited.
25. If the requirements of any such notice as aforesaid are not complied with, any Share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the directors to that effect.
26. A forfeited Share may be sold or otherwise disposed of on such terms and in such manner as the directors think fit, and at any time before a sale or disposition the forfeiture may be cancelled on such terms as the directors think fit.
27. A person whose Shares have been forfeited shall cease to be a member in respect of the forfeited Shares, but shall, notwithstanding, remain liable to pay to the company all moneys which, at the date of forfeiture, were presently payable by him to the Company in respect of the Shares, but his liability shall cease if and when the Company receive payment in full of the nominal amount of the Shares.
29. The provisions of these regulations as to forfeiture shall apply in the case of non-payment of any sum which, by the terms of issue of a Share, becomes payable at a fixed time, whether on account of the amount of the Share, or by way of premium, as if the same has been payable by virtue of a Call duly made and notified.

Illustration.—Suppose a company has an issued capital of 100,000 £1 shares, 5/- having been paid on application, and two calls of 5/- each having been made, making a total of 15/- per share called up, and that the directors resolve that 200 shares should be forfeited because the first and second calls of 5/- per share had not been paid. This fact would

be entered in the book-keeping records by Journal entries thus :

<i>Dr.</i>				<i>Cr.</i>			
	£	s.	d.	£	s.	d.	
Share Capital A/c .. <i>Dr.</i>	150	—	—				
To Forfeited Shares A/c ..				150	—	—	
(Being 200 £1 shares of 15/- per share called up forfeited for non-payment, as per minute No. —, dated — —.)							
Forfeited Shares A/c.. <i>Dr.</i>	100	—	—				
To First Call A/c				50	—	—	
„ Second Call A/c				50	—	—	
(Being amount of unpaid calls written back.)							

RE-ISSUE OF FORFEITED SHARES

The directors of a limited company have full legal power to issue any forfeited shares either at par or at a premium. They may issue them at a discount so long as the discount does not exceed the amount already paid on the shares.

Illustration.—The directors decided to re-issue the 200 forfeited shares at a discount of 2s. 6d. per share. As the nominal value of the shares is £1 each and the amount called up is 15s. per share, the new shareholder will have to pay 12s. 6d. per share. The Journal entries are as follows :

<i>Dr.</i>				<i>Cr.</i>			
	Fol.	£	s.	d.	£	s.	d.
Shareholder's A/c (personal a/c in General Ledger) <i>Dr.</i>		125	—	—			
Forfeited Shares A/c		25	—	—			
To Share Capital A/c					150	—	—
(Amount due in respect of forfeited shares re-issued.)							

Note.—The shareholder is debited with the actual amount due from him, and the Forfeited Shares A/c is debited with 2/6 a share. The Capital A/c is credited with the amount called up.

EXERCISE 126

A holder of 800 £1 shares having paid 10/- a share is unable to pay his calls. The directors decided to forfeit these shares, and, after giving due notice to do so, the shares are forfeited on August 12th, and sold to one of the other shareholders for £500 cash.

Show how these further entries would appear in the books and what difference they would make in the Balance Sheet.

EXERCISE 127

The Alert Company has a Nominal Capital of £30,000, divided into 30,000 £1 Ordinary Shares, all of which are issued and fully paid with the exception of the Final Call of 5s. per share on 800 shares. The Company resolves to forfeit these shares, and after doing so to issue them to J. Brown as fully paid for £250 cash.

Give the entries and Ledger Accounts necessary to show the above.

**REQUIREMENTS OF COMPANIES ACT, 1929,
REGARDING KEEPING THE BOOKS OF ACCOUNT.**

(1) Every company shall cause to be kept proper books of account with respect to—

- (a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure take place;
- (b) all sales and purchases of goods by the company;
- (c) the assets and liabilities of the company.

(2) The books of account shall be kept at the registered office of the company or at such other place as the directors think fit, and shall at all times be open to inspection by the directors.

(3) If any person being a director of a company fails to take all reasonable steps to secure compliance by the company with the requirements of this section, or has by his own wilful act been the cause of any default by the company thereunder he shall, in respect of each offence, be liable on summary conviction to imprisonment for a term not exceeding six months or to a fine not exceeding two hundred pounds :

Provided that a person shall not be sentenced to imprison-

ment for an offence under this section unless, in the opinion of the Court dealing with the case, the offence was committed wilfully.

Profit and Loss Account and Balance Sheet

(1) The directors of every company shall at some date not later than eighteen months after the incorporation of the company and subsequently once at least in every calendar year lay before the company in general meeting a profit and loss account or, in the case of a company not trading for profit, an income and expenditure account for the period, in the case of the first account, since the incorporation of the company, and, in any other case, since the preceding account, made up to a date not earlier than the date of the meeting by more than nine months, or, in the case of a company carrying on business or having interests abroad, by more than twelve months :

Provided that the Board of Trade, if for any special reason they think fit so to do, may, in the case of any company, extend the period of eighteen months aforesaid, and in the case of any company and with respect to any year extend the periods of nine and twelve months aforesaid.

(2) The directors shall cause to be made out in every calendar year, and to be laid before the company in general meeting, a balance sheet as at the date to which the profit and loss account, or the income and expenditure account, as the case may be, is made up, and there shall be attached to every such balance sheet a report by the directors with respect to the state of the company's affairs, the amount, if any, which they recommend should be paid by way of dividend, and the amount, if any, which they propose to carry to the reserve fund, general reserve or reserve account shown specifically on the balance sheet, or to a reserve fund, general reserve or reserve account to be shown specifically on a subsequent balance sheet.

(3) If any person being a director of a company fails to take all reasonable steps to comply with the provisions of this section, he shall, in respect of each offence, be liable on summary conviction to imprisonment for a term not exceeding six months or to a fine not exceeding two hundred pounds :

Provided that a person shall not be sentenced to imprisonment for an offence under this section unless, in the opinion

of the Court dealing with the case, the offence was committed wilfully.

Contents of Balance Sheet

(1) Every balance sheet of a company shall contain a summary of the authorised share capital and of the issued share capital of the company, its liabilities and its assets, together with such particulars as are necessary to disclose the general nature of the liabilities and the assets of the company and to distinguish between the amounts respectively of the fixed assets and of the floating assets, and shall state how the values of the fixed assets have been arrived at.

(2) There shall be stated under separate headings in the balance sheet, so far as they are not written off—

- (a) the preliminary expenses of the company ; and
- (b) any expenses incurred in connection with any issue of share capital or debentures ; and
- (c) if it is shown as a separate item in or is otherwise ascertainable from the books of the company, or from any contract for the sale or purchase of any property to be acquired by the company, or from any documents in the possession of the company relating to the stamp duty payable in respect of any such contract or the conveyance of any such property, the amount of the goodwill and of any patents and trademarks as so shown or ascertained.

(3) Where any liability of the company is secured otherwise than by operation of law on any assets of the company, the balance sheet shall include a statement that that liability is so secured, but it shall not be necessary to specify in the balance sheet the assets on which the liability is secured.

(4) The provisions of this section are in addition to other provisions of this Act requiring other matters to be stated in balance sheets.

Assets Consisting of Shares in Subsidiary Companies to be set out Separately in Balance Sheet

Where any of the assets of a company consist of shares in, or amounts owing (whether on account of a loan or otherwise) from a subsidiary company or subsidiary companies, the aggregate amount of those assets, distinguishing shares and indebtedness shall be set out in the balance sheet of the first-

mentioned company separately from all its other assets, and where a company is indebted, whether on account of a loan or otherwise, to a subsidiary company or subsidiary companies, the aggregate amount of that indebtedness shall be set out in the balance sheet of that company separately from all its other liabilities.

Balance Sheet to Include Particulars as to Subsidiary Companies

(1) Where a company (in this section referred to as "the holding company") holds shares either directly or through a nominee in a subsidiary company or in two or more subsidiary companies, there shall be annexed to the balance sheet of the holding company a statement, signed by the persons by whom in pursuance of section one hundred and twenty-nine of this Act the balance sheet is signed, stating how the profits and losses of the subsidiary company, or, where there are two or more subsidiary companies, the aggregate profits and losses of those companies, have, so far as they concern the holding company, been dealt with in, or for the purposes of, the accounts of the holding company, and in particular how, and to what extent,—

- (a) provision has been made for the losses of a subsidiary company either in the accounts of that company or of the holding company, or of both ; and
- (b) losses of a subsidiary company have been taken into account by the directors of the holding company in arriving at the profits and losses of the holding company as disclosed in its accounts :

Provided that it shall not be necessary to specify in any such statement the actual amount of the profits or losses of any subsidiary company, or the actual amount of any part of any such profits or losses which has been dealt with in any particular manner.

(2) If in the case of a subsidiary company the auditors' report on the balance sheet of the company does not state without qualification that the auditors have obtained all the information and explanations they have required and that the balance sheet is properly drawn up so as to exhibit a true and correct view of the state of the company's affairs according to the best of their information and the explanations given to them and as shown by the books of the company, the statement which is to be annexed as aforesaid to the balance sheet of the

holding company shall contain particulars of the manner in which the report is qualified.

(8) For the purposes of this section, the profits or losses of a subsidiary company mean the profits or losses shown in any accounts of the subsidiary company made up to a date within the period to which the accounts of the holding company relate, or, if there are no such accounts of the subsidiary company available at the time when the accounts of the holding company are made up, the profits or losses shown in the last previous accounts of the subsidiary company which became available within that period.

(4) If for any reason the directors of the holding company are unable to obtain such information as is necessary for the preparation of the statement aforesaid, the directors who sign the balance sheet shall so report in writing and their report shall be annexed to the balance sheet in lieu of the statement.

Meaning of Subsidiary Company

(1) Where the assets of a company consist in whole or in part of shares in another company, whether held directly or through a nominee and whether that other company is a company within the meaning of this Act or not, and—

- (a) the amount of the shares so held is at the time when the accounts of the holding company are made up more than fifty per cent. of the issued share capital of that other company or such as to entitle the company to more than fifty per cent. of the voting power in that other company ; or
- (b) the company has power (not being power vested in it by virtue only of the provisions of a debenture trust deed or by virtue of shares issued to it for the purpose in pursuance of those provisions) directly or indirectly to appoint the majority of the directors of that other company,

that other company shall be deemed to be a subsidiary company within the meaning of this Act, and the expression “subsidiary company” in this Act means a company in the case of which the conditions of this section are satisfied.

(2) Where a company the ordinary business of which includes the lending of money holds shares in another company as security only, no account shall for the purpose of determining

under this section whether that other company is a subsidiary company be taken of the shares so held.

Accounts to Contain Particulars as to Loans to, and Remuneration of, Directors, etc.

(1) The accounts which in pursuance of this Act are to be laid before every company in general meeting shall, subject to the provisions of this section, contain particulars showing—

- (a) the amount of any loans which during the period to which the accounts relate have been made either by the company or by any other person under a guarantee from or on a security provided by the company to any director or officer of the company, including any such loans which were repaid during the said period ; and
- (b) the amount of any loans made in manner aforesaid to any director or officer at any time before the period aforesaid and outstanding at the expiration thereof ; and,
- (c) the total of the amount paid to the directors as remuneration for their services, inclusive of all fees, percentages, or other emoluments, paid to or receivable by them by or from the company or by or from any subsidiary company.

(2) The provisions of subsection (1) of this section with respect to loans shall not apply—

- (a) in the case of a company the ordinary business of which includes the lending of money, to a loan made by the company in the ordinary course of its business ;
or
- (b) to a loan made by the company to any employee of the company if the loan does not exceed two thousand pounds and is certified by the directors of the company to have been made in accordance with any practice adopted or about to be adopted by the company with respect to loans to its employees.

(3) The provisions of subsection (1) of this section with respect to the remuneration paid to directors shall not apply in relation to a managing director of the company, and in the case of any other director who holds any salaried employment or office in the company there shall not be required to be

included in the said total amount any sums paid to him except sums paid by way of directors' fees.

(4) If in the case of any such accounts as aforesaid the requirements of this section are not complied with, it shall be the duty of the auditors of the company by whom the accounts are examined to include in their report on the balance sheet of the company, so far as they are reasonably able to do so, a statement giving the required particulars.

(5) In this section the expression " emoluments " includes fees, percentages, and other payments made or consideration given, directly or indirectly, to a director as such, and the money value of any allowances or perquisites belonging to his office.

ILLUSTRATION

The following is a very common form of examination question, and it would be advisable for the student to study the matter carefully, write out the Trial Balance, Trading and P. and L. A/cs, and the Balance Sheet, notice in the Balance Sheet that first of all is shown the Authorised (or nominal) capital, followed by the Subscribed (or Issued) Capital.

The Lotus Tobacco Company, Limited, was registered with a nominal capital of £200,000, divided into 200,000 shares of £1 each, to purchase, as on December 31st, 1918, the business of the late J. B. Clark from the executors. On December 31st, 1918, the assets and liabilities taken over were as follows :

							£	s.	d.
Stock	..	..	..	..	..	..	63,500	-	-
Book debts	..	..	..	..	..	..	21,890	-	-
Investments :									
Smyrna Tobacco Co., Ltd.	..	..	..	..	..	..	£1,000	-	-
Latakia, Limited	..	..	..	..	..	..	800	-	-
								1,800	-
Furniture	..	..	..	..	..	..		350	-
Warehouse (leasehold)	..	..	..	..	..	..		3,400	-
Sundry creditors	..	..	..	..	..	..		12,860	-

Under the purchase agreement, the new company was to pay the liabilities and to take over the assets at the book values set out above. The purchase price was agreed at £85,000, payable by the issue to the executors of 85,000 shares of £1 each, fully paid.

Of the remaining capital, 100,000 shares were offered to the public and were fully subscribed and allotted. On December

31st, 1919, 15s. per share had been called up and paid. The holder of £1,000 shares had paid up his shares in full.

In addition to the Ledger Accounts necessary to record the foregoing transactions, the following balances appeared in the company's books as on December 31st, 1919 :

	£	s.	d.
Directors' fees	1,500	-	-
Office salaries	2,141	-	-
Warehouse salaries	1,432	-	-
" rent and rates	984	-	-
Office rent and rates	578	-	-
Warehouse expenses	2,146	-	-
Carriage and freight, inwards	3,842	-	-
" " outwards	981	-	-
Travellers' expenses and commission	4,295	-	-
Office expenses	521	-	-
Bank charges and interest	1,286	-	-
Warehouse lighting	121	-	-
Preliminary expenses	680	-	-
Purchases	103,851	-	-
Duty paid	42,864	-	-
Sales	191,811	-	-
Sundry debtors (excluding debts taken over)	55,404	-	-
" creditors (excluding liabilities taken over)	7,242	-	-
Bills payable	1,821	-	-
Bank loan	50,000	-	-
Smyrna Branch (Debit Balance)	62,832	-	-
Discount Account (Credit Balance)	326	-	-
Cash at Bank (Current Account)	8,762	-	-
Cash in hand	488	-	-
Motor-lorry	1,800	-	-
Insurance (warehouse)	1,286	-	-
" (office)	12	-	-
Bills receivable	28,644	-	-

You are required to prepare Trading and Profit and Loss Accounts for the year ended December 31st, 1919, and a Balance Sheet as on that date.

When preparing these accounts, the following adjustments are necessary :

- The item " Purchases " includes expenditure, amounting to £2,000, upon the warehouse, which amount the directors decided to capitalise.
- £200 is to be written off the Preliminary Expenses Account.
- The shareholder whose calls are paid in advance is entitled, under the Articles, to £5 interest.

- (d) The following valuations were made as on December 31st, 1919 : Smyrna Tobacco Co., Ltd., shares, £500 ; furniture, £300 ; motor-lorry, £1,250 ; stock on hand, £71,472.
- (e) Unexpired insurance (warehouse), £362, is to be carried forward.
- (f) Interest at 7% for the three months ended December 31st, 1919, on the Bank loan was due, but no entries had been made.

(R.S.A.)

Dr. Trading and Profit and Loss A/c for the year ending
31st December, 1919 Cr.

	£		£
To Stock at beginning of period ..	63,500	By Sales during period ..	191,811
„ Purchases during period ..	101,851	„ Stock at end of period ..	71,472
„ Duty paid, being purchase expenditure ..	42,864		
„ Warehouse wages ..	1,432		
„ „ rent and rates ..	984		
„ „ expenses ..	2,146		
„ „ lighting ..	121		
„ „ insurance ..	924		
„ Carriage inwards ..	3,842		
„ Gross Profit ..	45,619		
	<u>£263,283</u>		<u>£263,283</u>
	£		£
To Directors' fees ..	1,500	By Trading Profit for the year ..	45,619
„ Office salaries ..	2,141	„ Discounts ..	326
„ Travellers' commission, etc. ..	4,295		
„ Office rent and rates ..	578		
„ Office expenses ..	521		
„ Carriage outwards ..	981		
„ Bank charges and interest ..	2,161		
„ Preliminary expenses w/o ..	200		
„ Office expenses for insurance ..	12		
„ Depreciation in Smyrna Tobacco Co.'s shares ..	500		
„ Depreciation in value of motor-lorry ..	550		
„ Depreciation on furniture ..	50		
„ Interest on call on 1,000 shares, 5/- paid in advance ..	5		
„ NET PROFIT on the year ..	32,451		
	<u>£45,945</u>		<u>£45,945</u>

APPROPRIATION A/c

The Profit and Loss A/c is frequently divided into two sections, the first section containing a record of charges incurred in bringing about the net profit, and the second giving particulars of what is to be done with the net profit. Expert opinion as to legitimate charges against the Profit and Loss Proper and those which should properly be included in the second division is divided, and so we cannot be dogmatic. The main thing is to understand the general principle, and to bear in mind that one of the important functions of book-keeping is to help in the management of the business; therefore it is of the greatest importance to provide an accurate comparison as between one year and another of the expenses incurred in earning profits. If items which are really appropriations of profit are included in the first section the usefulness of the comparison will be destroyed to that extent. This second section has several names. It is variously called the Appropriation A/c, the Net Revenue A/c, the Proposed Appropriation of Profits A/c, and more frequently it is merely a division without any heading. The Appropriation A/c is generally made up as follows :

On the Debit side

Items such as dividends paid to shareholders, amounts transferred to Reserve Funds, and balance (if any) to be carried forward.

On the Credit side

The net profit for the current year, and any balance of profit carried over from the previous year. These should be shown separately.

<i>Dr.</i>				Appropriation A/c				<i>Cr.</i>					
				£	s.	d.					£	s.	d.
1924							1924						
Dec. 31	To Ordinary						Jan. 1	By Balance	b/d		£	3	9
	Share Dividend ..			2,000	-	-	Dec. 31	" Profit transferred from P/L			127		
	" Preference										5,672	15	4
	Share Dividend ..			2,000	-	-							
	" Transfer to Reserve												
	A/c ..			1,000	-	-							
	Balance ..	c/d		799	17	1							
				<u>5,799</u>	<u>17</u>	<u>1</u>					<u>5,799</u>	<u>17</u>	<u>1</u>
							1925				£	s.	d.
							Jan. 1	By Balance	b/d		799	17	1

EXERCISE 128

The Windyridge Horticultural Company, Limited, was registered with a nominal capital of 30,000 shares of £1 each, of which 12,500 shares had been issued and fully called up.

The following Trial Balance was extracted from the books of the company as on December 31st, 1921 :

Trial Balance						
	Dr.			Cr.		
	£	s.	d.	£	s.	d.
Share capital account				12,500	-	-
Goodwill	5,000	-	-			
Leasehold warehouse and offices	5,547	-	-			
Loose tools	700	-	-			
Workmen's wages	2,586	-	-			
Rent and rates (warehouse, £750; offices, £120)	870	-	-			
Purchases	9,642	-	-			
Sales				17,894	-	-
Receipts for constructing gardens				1,963	-	-
Stock (December 31st, 1920) ..	3,861	-	-			
Purchase returns				94	-	-
Sales returns	39	-	-			
Carriage inwards	127	-	-			
Carriage outwards	98	-	-			
Insurance (warehouse, £92 ; offices, £26)	118	-	-			
Office salaries	697	-	-			
Directors' fees	450	-	-			
Discount Account				37	-	-
Motor-lorry	1,200	-	-			
Office furniture	320	-	-			
Loan on mortgage, at 10 per cent.				2,000	-	-
Interest Account and Bank charges	136	-	-			
Calls in arrear	250	-	-			
Sundry debtors	3,742	-	-			
Sundry creditors				2,520	-	-
Heating and lighting (ware- house, £72 ; office, £35) ..	107	-	-			
Advertising	975	-	-			
Bank overdraft				462	-	-
Cash in hand	107	-	-			
Reserve for bad debts (December 31st, 1920)				300	-	-
Profit and Loss Account (balance, December 31st, 1920) ..	1,198	-	-			
	£37,770	-	-	£37,770	-	-

You are required to prepare Trading and Profit and Loss Accounts for the year ended December 31st, 1921, and a Balance Sheet as on that date.

When preparing these accounts, the following matters must be taken into consideration :

- (a) Office salaries (£32) had accrued due as on December 31st, 1921, but had not been passed through the books.
- (b) Insurance (warehouse), £12, had been paid in advance.
- (c) Interest for the half-year to December 31st, 1921, on the mortgage, had accrued due, but had not been passed through the books (ignore income tax).
- (d) The following depreciation is to be provided : Motor-lorry, 15 per cent.; loose tools, 25 per cent.; office furniture, 5 per cent.
- (e) The reserve for bad debts is to be increased to £400.
- (f) The stock on hand as on December 31st, 1921, was valued at £4,062.

(R.S.A., Inter., May, 1922.)

EXERCISE 129

The Rugosa Manufacturing Company, Limited, was registered with a nominal capital of 50,000 shares of £1 each, of which 40,000 shares had been issued and fully called.

The following Trial Balance was extracted as on December 31st, 1922 :

Trial Balance

	Dr.			Cr.		
	£	s.	d.	£	s.	d.
Stock (31/12/21)	18,642	-	-			
Manufacturing wages	10,974	-	-			
Coal and coke	1,924	-	-			
Purchases and sales	82,146	-	-	116,990	-	-
Machinery repairs	861	-	-			
Carriage inwards	491	-	-			
Carriage outwards	964	-	-			
Interim dividend (paid 1/7/22)	2,000	-	-			
Income tax	1,429	-	-			
Bank loan (5 per cent.)				5,000	-	-
Interest on loan	125	-	-			
Sundry debtors and creditors ..	16,440	-	-	9,222	-	-
Profit and Loss Account (balance 31/12/21)				3,864	-	-
Bank Current Account	1,686	-	-			
Cash in hand	192	-	-			
Leasehold factory	6,421	-	-			
Carried forward	144,295	-	-	135,076	-	-

Trial Balance—*continued*

	Dr.			Cr.		
	£	s.	d.	£	s.	d.
Brought forward	144,295	-	-	135,076	-	-
Machinery and plant	7,840	-	-			
Loose tools	1,250	-	-			
Share capital				40,000	-	-
Calls in arrear	100	-	-			
Rent, rates, and light (factory, £1,421; offices, £340)	1,761	-	-			
Directors' fees	1,200	-	-			
Office salaries and expenses	1,425	-	-			
Office furniture	500	-	-			
Commission	864	-	-			
Returns	1,264	-	-	981	-	-
Preliminary expenses account	600	-	-			
Transfer fees				42	-	-
Goodwill	15,000	-	-			
	<u>£176,099</u>	-	-	<u>£176,099</u>	-	-

You are required to prepare Manufacturing and Profit and Loss Accounts for the year ended December 31st, 1922, and a Balance Sheet as on that date.

When preparing these accounts, the following matters must be taken into consideration :

- (1) Write one-third off the Preliminary Expenses Account.
- (2) Write 10 per cent. depreciation off machinery and plant, and 5 per cent. off office furniture.
- (3) Manufacturing wages, £189, and office salaries, £120, had accrued due, as on December 31st, 1922; but no entries had been made in the books.
- (4) Provide for the interest due on the Bank loan for the half-year ended December 31st, 1922.
- (5) The stock was valued at £12,484, and loose tools at £1,000, as on December 31st, 1922.
- (6) Reserve £850 on the sundry debtors for bad and doubtful debts.
- (7) Reserve $2\frac{1}{2}$ per cent. on the sundry debtors for discount.

(*R.S.A., Intermediate, March, 1923.*)

EXERCISE 130

Falconer, Son & Faulkner, Ltd., was registered as a limited company with a nominal capital of £25,000 divided into

25,000 shares of £1 each. On December 31st, 1918, the following Trial Balance was extracted from the books of the company :

Trial Balance, December 31st, 1918

	<i>Dr.</i>		<i>Cr.</i>	
	£	s. d.	£	s. d.
Subscribed capital : 22,000 shares of £1 each			22,000	- -
Calls in arrear	1,000	- -		
6% Debentures			3,000	- -
Reserve Account			4,500	- -
Leasehold property	3,400	- -		
Plant and machinery	8,500	- -		
Fixtures and fittings	700	- -		
Stock on hand, December 31st, 1917	11,100	- -		
Sundry debtors	34,800	- -		
Sundry creditors			29,600	- -
Repairs Reserve, December 31st, 1917			140	- -
Cash at Bank	3,000	- -		
Cash in hand	370	- -		
Purchases	43,800	- -		
Purchases returns			1,800	- -
Salaries	3,500	- -		
Carriage on sales	690	- -		
Wages	6,820	- -		
Trade expenses	1,400	- -		
Rent, rates, and taxes	3,000	- -		
Insurance	400	- -		
Gas and water	390	- -		
Carriage on purchases	260	- -		
Sales			61,000	- -
Sales returns	3,400	- -		
Bad debts	90	- -		
General expenses	350	- -		
Interest on debentures for half-year ended June 30th, 1918	90	- -		
Discount	1,270	- -	860	- -
Dividend paid out of 1917 profits	2,100	- -		
Profit and Loss Account, balance, December 31st, 1917			9,200	- -
Travellers' commission	1,670	- -		
	<u>£132,100</u>	<u>- -</u>	<u>£132,100</u>	<u>- -</u>

From the above Trial Balance you are required to prepare Trading and Profit and Loss Accounts for the year ended

December 31st, 1918, and a Balance Sheet as on that date, subject to the following :

1. The stock on hand on December 31st, 1918, was valued at £28,570.
2. £500 depreciation is to be written off plant and machinery.
3. Half-year's interest on debentures is to be provided for (ignore income tax).
4. $2\frac{1}{4}\%$ on debtors and creditors is to be reserved for discount thereon.
5. £100 is to be added to Repairs Reserve.
6. The Reserve Account is to be increased to £10,000.

(*R.S.A., Inter., April, 1919.*)

EXERCISE 131

The following Trial Balance was extracted from the books of L. Pirrie as on December 31st, 1919 :

Trial Balance

	<i>Dr.</i>			<i>Cr.</i>		
	£	s.	d.	£	s.	d.
Capital Account				9,000	-	-
Drawings Account	700	-	-			
Purchases	5,221	-	-			
Purchases returns				424	-	-
Sales				14,984	-	-
Sales returns	182	-	-			
Stock (January 1st, 1919) ..	1,146	-	-			
Salaries	628	-	-			
Manufacturing wages	3,856	-	-			
Leasehold factory	2,500	-	-			
Rent, rates, and insurance ..	694	-	-			
Carriage inwards	231	-	-			
Carriage outwards	324	-	-			
Office expenses	228	-	-			
Factory expenses	724	-	-			
Plant and machinery	2,400	-	-			
Bad debts reserve (January 1st, 1919)				324	-	-
Factory fuel	795	-	-			
Discount Account (balance) ..				18	-	-
Bills receivable	124	-	-			
Sundry debtors	3,897	-	-			
Sundry creditors				1,698	-	-
Cash at Bank	1,240	-	-			
Cash in hand	221	-	-			
Office furniture	350	-	-			
Travellers' salaries and commission	987	-	-			
	<u>£26,448</u>	-	-	<u>£26,448</u>	-	-

You are required to prepare therefrom Trading and Profit and Loss Accounts for the year ended December 31st, 1919, and a Balance Sheet as on that date.

Before preparing the accounts the following adjustments are necessary :

1. Depreciation is to be written off as follows : Plant and machinery, 10% ; office furniture, 5%.
2. The reserve for bad debts is to be made up to £400.
3. The value of the stock, as on December 31st, 1919, was £1,429.
4. Three days' wages (amounting to £57) had accrued due, but had not been paid, on December 31st, 1919.
5. Unexpired insurances, amounting to £68, are to be carried forward to next year.
6. 5% interest is to be allowed on capital, but no interest is to be charged on drawings.

(*R.S.A., Inter., May, 1920.*)

EXERCISE 132

Messrs. Oullins, Ltd., was registered with a nominal capital of £100,000, consisting of 100,000 ordinary shares of £1 each. Of this capital 50,000 shares had been issued at a premium of 2s. 6d. per share and fully called up. On December 31st, 1919, the understated Trial Balance was extracted from the books of the company :

		Trial Balance					
		<i>Dr.</i>			<i>Cr.</i>		
		£	s.	d.	£	s.	d.
Share capital account .. ..	..				50,000	-	-
Calls in arrear .. ..	..	500	-	-			
Premium on shares .. ..	..				6,250	-	-
Freehold Works .. ..	..	25,688	-	-			
Machinery and plant .. ..	..	16,900	-	-			
Loose tools .. ..	..	3,840	-	-			
Goodwill .. ..	..	12,500	-	-			
Manufacturing wages .. ..	..	12,940	-	-			
" expenses .. ..	..	3,231	-	-			
Factory fuel and lighting ..	..	1,780	-	-			
Carriage inwards .. ..	..	1,298	-	-			
" outwards .. ..	..	1,544	-	-			
Stock (January 1st, 1919) ..	..	4,795	-	-			
Reserve for bad debts (January 1st, 1919) .. ..	..				650	-	-
Carried forward .. ..	..	85,016	-	-	56,900	-	-

Trial Balance—*continued*

		Dr.			Cr.		
		£	s.	d.	£	s.	d.
Brought forward	.. ..	85,016	-	-	56,900	-	-
Sales	.. ..				64,559	-	-
Sales returns	.. ..	221	-	-			
Purchases	.. ..	21,486	-	-			
Purchases returns	.. ..				1,271	-	-
Travelling expenses and commis-							
sion	.. ..	2,234	-	-			
Office salaries	.. ..	3,642	-	-			
Rates and taxes (factory)	.. ..	347	-	-			
Rates and Taxes (office)	.. ..	62	-	-			
Insurance	.. ..	684	-	-			
General expenses	.. ..	1,772	-	-			
Office expenses	.. ..	488	-	-			
Directors' fees	.. ..	1,000	-	-			
Transfer fees	.. ..				7	-	-
Sundry creditors	.. ..				10,980	-	-
Sundry debtors	.. ..	14,208	-	-			
Fixtures, fittings, and furniture	.. ..	3,500	-	-			
Advertising	.. ..	3,765	-	-			
Cash in hand	.. ..	782	-	-			
Bank overdraft	.. ..				5,876	-	-
Repairs to machinery and plant	.. ..	498	-	-			
Discount Account	.. ..				112	-	-
		<u>£139,705</u>			<u>£139,705</u>		

You are required to prepare Trading and Profit and Loss Accounts for the year ended December 31st, 1919, and a Balance Sheet as on that date.

When preparing the accounts it is necessary to take the following matters into consideration :

1. Depreciation is to be charged as follows : Machinery and plant, 10 %; fixtures, fittings, and furniture, 5 %.
2. The reserve for bad debts is to be made up to £750.
3. Unexpired expenditure is to be carried forward as follows :
 - (a) Insurance, £120.
 - (b) Advertising, £1,000.
4. £100 has been wrongly charged to "Repairs to Machinery and Plant" instead of to "Loose Tools" Account.
5. The stock on hand was valued as on December 31st, 1919, at £6,421. On the same date the loose tools were valued at £3,400.

(*R.S.A., Inter., March, 1920.*)

EXERCISE 133

1. What is the difference between gross profit and net profit ? Illustrate your answer by means of pro forma accounts.
2. Submit a ruling of a Bills Payable Book and enter particulars of two bills therein.
3. On January 1st, 1918, George Dickson paid £5,000 into an account opened by him at the Loamshire Bank. On January 2nd he purchased from his brother, Hugh Dickson, the Dingle Gravel and Sand Pits as a going concern. The assets acquired were valued and paid for by cheque as follows : Freehold gravel pit, £3,000 ; machinery and plant, £400 ; stock of gravel and sand, £320 ; horse and cart, £100. Total, £3,820.

You are required to open the necessary Ledger Accounts and to post to them the transactions for the month of January as set out below through the proper subsidiary books. All moneys received were paid into the bank on the day of receipt, and all payments, except where otherwise stated, were made by cheque.

Balance the Ledger Accounts and extract a Trial Balance.

N.B.—No Profit and Loss Account or Balance Sheet is to be prepared.

1918

- Jan. 3—Paid John Hodge £8, by cheque, for hay.
 „ 4—Drew and cashed cheque for petty cash, £10.
 „ 5—Sold, on credit, G. Gates 30 loads of gravel at 22s. per load.
 „ 7—Drew cheque for wages, £32 4s. 7d.
 „ 7—Paid clerk's salary, in cash, £3.
 „ 8—Paid rates by cheque, £7 8s. 6d.
 „ 9—Bought sifting machine from R. Barter for £75, and gave him bill at three months.
 „ 10—Sold, on credit, W. Road 16 loads of sand at 27s. 6d. per load.
 „ 11—Carted 20 loads of coal for A. Farmer, at 8s. per load, and sent him invoice for amount due.
 „ 12—Received cheque from G. Gates, less 2½% discount, and paid same into Bank.
 „ 14—Received cheque from A. Farmer and paid same into Bank.
 „ 14—Drew cheque for wages, £28 10s. 6d.
 „ 15—Received three months' bill from W. Road for the amount of his account.
 „ 16—Sold, on credit, R. Barley 18 loads of gravel at 22s. 6d. per load.
 „ 17—Sent R. Barley a credit note for one load of gravel, delivery of which was refused by him as not properly screened.
 „ 18—Paid clerk's salary, in cash, £3.

1918

- Jan. 18—Drew and cashed cheque for petty cash, £5.
 „ 18—Paid cash for stationery, stamps, etc., £3 10s.
 „ 19—Received cheque for £10 on account from R. Barley.
 „ 23—Bought, on credit, sundry stores from R. Grundy & Co., £10 10s.
 „ 24—R. Barley's cheque (dated 19th) was returned dishonoured.
 „ 25—Sold, on credit, R. Burbidge 15 trucks of sand at £6 10s. per truck.
 „ 28—R. Burbidge claimed £3 for short measure, owing to faulty truck. Sent him credit note (£3) and made a claim on the railway company for the like sum.
 „ 29—Received £10 18s. 6d. for cartage for sundry persons.
 „ 31—Drew cheque for £15 for private purposes.
 „ 31—Bought, on credit, timber props from G. Baron, £9 7s. 6d.
 „ 31—Paid R. Grundy his account, less 5% discount.

4. The Ravary Manufacturing Company, Ltd., was registered in 1914 with a nominal capital of £75,000, divided into 50,000 ordinary shares of £1 each and 25,000 6% preference shares of £1 each.

The following Trial Balance was extracted from the books of the company as on December 31st, 1917 :

Trial Balance

	Dr.			Cr.		
	£	s.	d.	£	s.	d.
Ordinary Shares Account (30,000 £1 Shares, fully paid)				30,000	-	-
6% Preference Shares Account (20,000 £1 Shares, fully paid)				20,000	-	-
Freehold premises	14,500	-	-			
Plant and machinery	10,200	-	-			
Motor-lorries	1,450	-	-			
Stock, January 1st, 1917	8,752	-	-			
Sundry creditors				4,246	-	-
Loan on mortgage (5%)	1,000	-	-			
Sundry debtors	22,460	-	-			
Reserve for bad debts (January 1st, 1917)				1,000	-	-
Patents Account	600	-	-			
Reserve Account				4,000	-	-
Purchases	54,926	-	-			
Purchases returns				984	-	-
Sales				86,278	-	-
Sales returns	1,128	-	-			
Factory wages	18,926	-	-			
Fuel and oil	1,222	-	-			
Gas and lighting (factory, £300 ; office, £24)	324	-	-			
Carried forward	135,488	-	-	146,508	-	-

Trial Balance—*continued*

	<i>Dr.</i>			<i>Cr.</i>		
	£	s.	d.	£	s.	d.
Brought forward	135,488	-	-	146,508	-	-
Carriage inwards	1,721	-	-			
Carriage outwards	984	-	-			
Rates, taxes, and insurance ..	421	-	-			
Discount Account (balance) ..	342	-	-			
Directors' and auditors' fees ..	552	-	-			
Cash at Bank	4,287	-	-			
Cash in hand	824	-	-			
Profit and Loss Account, balance (January 1st, 1917)				3,826	-	-
Preference dividend (half-year to June 30th, 1917)	600	-	-			
Bills receivable	961	-	-			
Office salaries and expenses ..	2,856	-	-			
Advertising and traveller's ex- penses	1,298	-	-			
	<u>£150,334</u>	-	-	<u>£150,334</u>	-	-

You are required to prepare Manufacturing and Profit and Loss Accounts for the year ended December 31st, 1917, and a Balance Sheet as on that date.

When preparing these accounts, the following adjustments are necessary :

1. The stock on hand on December 31st, 1917, was valued at £10,982.
 2. Depreciation is to be written off as follows : Machinery and plant, 10% ; motor-lorries, 20% ; patents, 50%.
 3. The reserve for bad debts is to be raised to an amount equal to 5% on the sundry debtors.
 4. A year's interest at 5% was due on the loan on mortgage, but had not been passed through the books.
 5. £1,000 is to be transferred to Reserve Account.
- (*R.S.A., Inter., March, 1918.*)

EXERCISE 134

1. Describe the form and functions of a bill of lading.
2. On November 29th, 1918, Andorides Frères, of Athens, consigned to W. Raleigh, of London, 50 cases of Turkish tobacco, each containing 120 lb., at 4s. per lb. The

consignment arrived in London on December 31st, 1918, and W. Raleigh accepted a six months' bill for half the value of the tobacco, and took delivery in bond. On January 4th, 1919, he sold 30 cases to the John and Adam Cigarette Co. for 5s. per lb., and received payment the same day. On January 31st, 1919, the purchasers requested W. Raleigh to take the tobacco out of bond for them, and gave them a three months' bill for the duty, at 8s. 2d. per lb., paid by him.

You are required to show the entries in W. Raleigh's books necessitated by the foregoing transactions.

3. On December 31st, 1918, the X Trading Company, Ltd., which was registered with a nominal capital of £10,000, consisting of 10,000 ordinary shares of £1 each, had issued 8,000 shares which were fully paid, with the exception of 5s. per share on 500 shares. The company had issued ten 6 per cent. debentures of £100 each. In addition to the balances represented by the above information, the following balances appeared in the books of the company on December 31st, 1918 :

	£	s.	d.
Freehold premises	4,672	—	—
Stock on hand	2,115	—	—
Profit and Loss Account, debit balance ..	962	—	—
Bank overdraft	647	—	—
Cash in hand	19	—	—
Plant and fixtures	1,467	—	—
Due by :			
A. Age	125	—	—
E. Ewart & Co.	92	—	—
F. Frost	401	—	—
Due to :			
B. Brown	147	—	—
C. Cook & Co.	106	—	—
D. Drabble	48	—	—
Debenture holders, for half-year's interest ..	30	—	—

You are required to open the necessary Ledger Accounts and to post to them through the proper subsidiary books the transactions set out below. All moneys received were paid into the Bank on the day of receipt, and all payments, except where otherwise stated, were made by cheque.

Balance the Ledger Accounts and extract a Trial Balance.

Note.—No Profit and Loss Account or Balance Sheet is to be prepared.

1919

- Jan. 1—Paid debenture interest (less income tax at 6s.).
 „ 1—Sold, on credit, 3 gross of articles at 6s. a dozen to F. Frost.
 „ 2—Gave C. Cook & Co. a bill at three months for the amount due to them.
 „ 2—Sold A. Age, on credit, 500 articles at 2s. 6d. each, less trade discount of 10 per cent.
 „ 2—Purchased from B. Brown, on credit, goods to the value of £497, and paid him £250 on account.
 „ 3—Borrowed £2,000 from the Bank, lodging as security the deeds of the freehold premises.
 „ 3—Received from E. Ewart & Co. the amount due from them, less 2½ per cent. discount.
 „ 3—Paid, by cash, office expenses, £2 10s.
 „ 3—Purchased, for cash, fixtures, £14.
 „ 4—Received from A. Age the amount due on December 31st, 1918, less 2½ per cent.
 „ 4—Drew and cashed cheque for cash purposes, £50.
 „ 4—Paid wages, by cash, £39.
 „ 6—A. Age returned 47 articles sold him on the 2nd, and was given a credit note.
 „ 6—F. Frost paid £400 on account.
 „ 7—Gave B. Brown a bill at two months for the amount due to him, plus 5 per cent. by way of interest.
 „ 8—Purchased from B. Brown, on credit, 12 gross of articles at 125s. a gross.
 „ 8—Sold F. Frost, on credit, goods to the value of £50.
 „ 8—Paid £55 Schedule A Income Tax, due on January 1st, on the assessment of the freehold premises.
 „ 8—Paid, by cash, cartage charges, 30s.
 „ 9—Purchased goods, on credit, from G. Graves to the value of £150, paying him 25 per cent. on delivery.
 „ 9—Returned to B. Brown ¼ gross of articles purchased from him on the 8th, and received a credit note.
 „ 9—Paid D. Drabble the amount due to him, less 5 per cent. discount.

4. From the following Trial Balance, extracted from the books of a limited company, you are required to prepare Trading and Profit and Loss Accounts for the year ended December 31st, 1918, and a Balance Sheet as on that date.

Trial Balance						
			Dr.		Cr.	
			£	s.	d.	£ s. d.
Capital (nominal, 10,000 shares of £1 each), 8,000 shares fully paid						8,000 - -
Plant and machinery	..	..	1,972	10	-	
Manufacturing wages	..	..	3,496	12	-	
Carried forward	..	..	5,469	2	-	8,000 - -

Trial Balance—*continued*

	<i>Dr.</i>			<i>Cr.</i>		
	£	s.	d.	£	s.	d.
Brought forward	5,469	2	—	8,000	—	—
Salaries	1,596	10	4			
Fixtures and fittings	947	6	8			
Carriage inwards	198	4	7			
Carriage outwards	215	6	11			
Freehold works	2,500	—	—			
Manufacturing expenses	945	14	3			
Rates, taxes, and insurance	417	10	10			
Goodwill	3,000	—	—			
General expenses	814	5	—			
Factory fuel and power	127	10	—			
Sundry debtors	7,814	10	—			
Sundry creditors				5,416	10	—
Lighting and heating	98	14	7			
Profit and Loss Account (balance, December 31st, 1917)				743	6	—
Bank loan				1,000	—	—
Stable expenses	247	6	11			
Stock, December 31st, 1917	3,417	8	9			
Horses and carts	516	10	—			
Purchases	9,716	10	4			
Purchases returns				114	5	11
Sales				24,141	14	5
Sales returns	316	10	—			
Discount Account (balance)	92	4	1			
Bad debts	148	9	6			
Interest and Bank charges	47	10	—			
Cash at Bank	754	1	5			
Cash in hand	14	10	2			
	<u>£39,415</u>	<u>16</u>	<u>4</u>	<u>£39,415</u>	<u>16</u>	<u>4</u>

When preparing these accounts, the following must be taken into consideration :

- (a) The stock on hand on December 31st, 1918, was valued at £2,962 9s. 7d.
- (b) Depreciation is to be written off :
 - (i) Plant and machinery, 10 per cent.
 - (ii) Fixtures and fittings, 5 per cent.
 - (iii) Horses and carts, £100.
- (c) A reserve for bad debts is to be created amounting to 5 per cent. of the sundry debtors.
- (d) Rates and insurance unexpired as on December 31st, 1918, amounted to £49.

- (e) A commission of 1 per cent. on the gross profit is to be credited to the works manager, and a commission of 5 per cent. on the net profit (after charging the works manager's commission) is to be credited to the general manager.

(R.S.A., *Inter.*, May, 1919.)

EXERCISE 135

1. On March 1st, 1924, A. Chatenay consigned to his agent, W. Dreer, in Bombay, 100 Budgworth cycles by s.s. *Empress of India*, invoiced pro forma at £8 17s. 6d. each. Give the entries which Chatenay should make to record the despatch of this consignment in his books.

2. Explain the following :

Del credere commission.

Discounting a bill.

Delivery order.

" A/C Payee " (written across a cheque).

3. The financial position of M. Farncombe, a wholesale clothier on January 1st, 1924, was as follows : Creditors—J. Niger, £194 8s. 6d. ; P. Noel, £127 14s. 10d. ; M. Helyett, £139 16s. 8d. Debtors—D. Dennison, £147 13s. 4d. ; B. Job, £47 14s. 8d. Cash at Bank, £327 10s. ; cash in hand, £19 7s. 6d. ; furniture and fixtures, £227 8s. 4d. ; stock, £2,876 14s. 8d. Bill payable, F. Juranville, £100 (due January 6th, 1924).

On January 1st C. Butt joined Farncombe as a partner and brought in the following assets : Cash, £500 ; stock, £1,285 ; furniture and fixtures, £120. Bill receivable (J. Rodgers, due January 8th, 1924), £95.

The new firm traded under the style of Farncombe & Butt, and their transactions for the month of January are set out below.

Open the accounts necessary to record the position of the new firm as on January 1st, 1924, and post the transactions for January through the proper subsidiary books.

1924

- Jan. 2—Paid J. Niger the amount of his account by bill at three months for £100, and the balance by cheque.
- „ 3—Drew and cashed cheque for petty cash, £50.
- „ 3—Paid, in cash, wages, £27 8s. 4d. ; railway carriage, £9 16s. 8d. ; and sundry cash purchases, £27 14s. 6d.

1924

- Jan. 4—Sold, on credit, to E. Gray, 100 boys' all-wool overcoats, at 21s. 9d. each, less 10 per cent. trade discount.
- „ 6—Purchased, from P. Noel, on credit, 12 dozen pairs khaki whipcord cavalry breeches at 11s. 8d. per pair.
- „ 6—Bill payable due this day was duly met by Bankers.
- „ 8—Bill receivable due this day was duly honoured by cheque.
- „ 10—Paid M. Heylett, by cheque, the amount of his account, less 5 per cent. cash discount.
- „ 12—Sold, on credit, to S. Gold, 6 dozen gents' Raglan overcoats at £3 15s. 5d. each, less 10 per cent. trade discount.
- „ 14—D. Dennison paid, by cheque, the amount of his account, less 5 per cent. cash discount.
- „ 14—Drew and cashed cheque, £75, for petty cash.
- „ 15—Paid, in cash, wages, £28 19s. 6d.; packing materials, £10 17s. 4d.; cash purchases, £9 4s. 6d.
- „ 17—S. Gold returned as damaged 3 overcoats supplied on the 12th instant. Sent him a credit note for £11.
- „ 19—S. Gold sent his acceptance for £100 at three months as a payment on account.
- „ 22—Sold, for cash, 2 overalls at 14s. 9d. each; 1 overcoat at £4 4s.; and 1 pair of riding breeches at £1 1s.
- „ 23—Paid, in cash, wages, £23 18s. 4d.; and railway carriage, £4 18s. 6d.
- „ 24—Bought, and paid for by cheque, new show-case, £25 10s.

Balance the Ledger Accounts, as on January 24th, 1924, and extract a Trial Balance.

N.B.—No P. & L. Account or B/S is to be prepared.

4. B. Uprichard, Limited, a manufacturing company, was registered in 1920 with a nominal capital of £100,000, divided into 50,000 ordinary shares of £1 each and 50,000 7 per cent. preference shares of £1 each.

The Trial Balance on page 325 was extracted from the books of the company as on December 31st, 1923.

You are required to prepare Manufacturing and Profit and Loss Accounts for the year ended December 31st, 1923, and a Balance Sheet as on that date.

The following matters must be taken into consideration when preparing these accounts :

- (a) As on December 31st, 1923, the following amounts were outstanding: Wages, £189; office salaries, £65; directors' fees, £500.
- (b) Depreciation is to be provided as follows: Machinery and plant (including additions), 10 per cent.; motor-lorries, 15 per cent.; office furniture, 5 per cent.

- (c) The stock, as on December 31st, 1923, was valued at £11,841.
- (d) The half-year's interest due on the debentures on December 31st, 1923, must be provided for.
- (e) A claim for £320 for payments made to injured workmen (included in wages) had been admitted on December 31st, 1923, by the Employers' Liability Company, but the claim had not been put through the books.
- (f) The reserve for bad and doubtful debts is to be increased to £1,000.

Trial Balance

	<i>Dr.</i>			<i>Cr.</i>		
	£	s.	d.	£	s.	d.
Ordinary share capital				30,000	-	-
Seven per cent. preference share capital				50,000	-	-
Calls in arrear (ordinary shares) ..	500	-	-			
Directors' fees	500	-	-			
Five per cent. debentures ..				10,000	-	-
Debenture Interest Account ..	250	-	-			
Audit fee	250	-	-			
Purchases	39,862	-	-			
Sales				66,966	-	-
Machinery and plant (31/12/1922) ..	18,960	-	-			
" " additions during the year	1,580	-	-			
Bad Debt Reserve (31/12/1922) ..				850	-	-
Freehold factory	42,872	-	-			
Sundry creditors				14,532	-	-
Sundry debtors	17,862	-	-			
Stock (31/12/1922)	13,875	-	-			
Purchases and sales returns ..	348	-	-	782	-	-
Profit and Loss Account (balance, 31/12/1922)	8,741	-	-			
Manufacturing wages	18,742	-	-			
Factory power and expenses ..	2,387	-	-			
Motor-lorries	1,860	-	-			
Office furniture	580	-	-			
Office salaries	1,942	-	-			
General expenses, rates, etc. (factory, £1,262; office, £425) ..	1,687	-	-			
Carriage (purchases)	872	-	-			
" (sales)	914	-	-			
Discount Account				171	-	-
Carried forward	174,584	-	-	173,301	-	-

Trial Balance—*continued*

	Dr.			Cr.		
	£	s.	d.	£	s.	d.
Brought forward	174,584	-	-	173,301	-	-
Office expenses	1,264	-	-			
Cash in hand	137	-	-			
Bank overdraft				2,684	-	-
	<hr/>			<hr/>		
	£175,985	-	-	£175,985	-	-
	<hr/>			<hr/>		

(R.S.A., Stage II, 1924.)

EXERCISE 136

1. On March 1st, 1924, H. Dickson sold the following goods, on credit, to Q. Alexander :

10 Indian square carpets at £6 12s. 0d. each.

40 pieces cotton sheeting at £5 per piece.

10 cases fancy goods at £3 14s. 0d. per case.

All subject to 10 per cent. trade discount.

On March 6th, 1924, Alexander returned two carpets and one case fancy goods as damaged.

Dickson divides his business into three departments, i.e. Carpets, Cottons, and Fancy Goods, and arranges his book-keeping accordingly.

Give the entries necessary to record the sale and return of the above goods as they would appear in H. Dickson's books.

2. Explain the following :

Above par.

Order cheque.

Account sales.

Negotiable instrument.

SECTION I

C. Casson and G. Emblem are in partnership as wholesale grocers. The capital of the partners is equal. In addition to the partners' Capital Accounts the following balances stood in the books of the firm as on December 31st, 1923 :

Stock, £1,026 ; Cash at bank, £790 ; Cash in hand, £68 ; Fixtures and fittings, £428 ; Motor-vans, £1,057. Sundry creditors : B. Uprichard & Sons, £106 ; J. B. Clark, £188. Bill payable, C. Christie (due January 6th, 1924), £100 ; Landlord (rent due December 25th, 1923), £250. Sundry

debtors : A. Chatenay, £87 ; C. Testout, £29 ; C. Hayward, £109.

Open the Ledger Accounts necessary to record the above particulars and post thereto, through the proper subsidiary books, the following transactions :

1924

- Jan. 1—A. Chatenay paid, by cheque, the amount due from him, less 5 per cent. cash discount.
- „ 2—Paid, by cheque, the rent due to landlord.
- „ 3—Purchased, for cash, job lot of dried fruit, £42.
- „ 4—Drew and cashed cheque, £100, and paid into office cash.
- „ 5—Sold, on credit, to C. Testout, 2 gross tins “ Blue and Black ” coffee at 24s. 6d. per dozen tins, 8 cwt. sugar at 32s. 6d. per cwt., 10 cases dried fruit at 1s. 6d. per box (each case containing 20 boxes), and 2 chests of tea at 26s. per chest. The whole invoice subject to 10 per cent. trade discount.
- „ 6—Bankers duly met bill payable due this day.
- „ 8—Paid, in cash, wages, £17 12s. 6d. ; railway carriage, £9 14s. 10d. ; and packing materials, £7 4s. 1d.
- „ 9—Purchased, on credit, from the West Indies Supply Company, 30 cases lime-juice at 1s. 2d. per bottle, each case containing 2 dozen bottles, less 10 per cent. trade discount.
- „ 10—C. Testout returned, as damaged, one chest of tea supplied on the 5th instant.
- „ 12—Accepted bill, at 3 months, in favour of J. B. Clark for the amount due to him.
- „ 15—Paid, in cash, wages, £18 4s. 5d. ; packing materials, £3 19s. 4d. ; and new desk and showcase for office, £37 10s. 0d.
- „ 19—Sold, for cash, 56 lb. of tea at 1s. 9d. per lb., and charged 5s. for boxes.
- „ 20—Paid, by cheque, B. Uprichard & Sons the amount of their account less 5 per cent. cash discount.
- „ 22—C. Casson and G. Emblem drew, by cheque, £20 each for private purposes.

Balance the Ledger Accounts as on January 22nd, 1924, bring down the balances, and extract a trial balance.

N.B.—No Profit and Loss Account or Balance Sheet is to be prepared.

SECTION II

Berkshire Contractors, Limited, was registered in 1920 with a nominal capital of £100,000 divided into 100,000 shares of £1 each, of which 75,000 shares had been issued and fully called.

The Trial Balance of the Company, as on December 31st 1923, was as follows :

Trial Balance

	<i>Dr.</i>			<i>Cr.</i>		
	£	s.	d.	£	s.	d.
Share Capital Account				75,000	-	-
Freehold works	25,200	-	-			
Machinery and plant	42,860	-	-			
Loose tools	1,880	-	-			
Contracts executed				76,842	-	-
Purchases (stores and materials)	24,787	-	-			
Workmen's wages	36,974	-	-			
Office salaries	2,796	-	-			
Directors' fees	750	-	-			
Repairs to machinery and plant	976	-	-			
Rates and insurance (works, £2,268 ; office, £141)	2,409	-	-			
Office expenses	1,527	-	-			
Reserve Account				3,000	-	-
Profit and Loss Account Balance (31/12/1922)				891	-	-
Sundry debtors	17,800	-	-			
Sundry creditors				10,647	-	-
Returns	296	-	-	1,242	-	-
Carriage inwards	1,576	-	-			
Carriage outwards	941	-	-			
Discount Account (balance)	397	-	-			
Cash in hand	1,284	-	-			
Bank overdraft				6,684	-	-
General expenses (works, £2,976 ; office, £201)	3,177	-	-			
Interest and bank charges	424	-	-			
Bad Debts Reserve (31/12/1922)				850	-	-
Stock (stores and materials 31/12/1922)	7,896	-	-			
Office furniture	680	-	-			
Preliminary Expenses Account (balance)	526	-	-			
	£175,156	-	-	£175,156	-	-

You are required to prepare Working and Profit and Loss Accounts for the year ended December 31st, 1923, and a Balance Sheet as on that date.

Before preparing these accounts the following matters must be taken into consideration :

(a) On December 31st, 1923, the following valuations were made : Stock (stores and materials), £3,741. Value of work done on uncompleted contracts on hand, £3,000.

(b) Depreciation is to be provided as follows : Machinery and plant, 10 per cent. ; Office furniture, 5 per cent. ; Loose tools, 20 per cent.

(c) The Reserve for Bad Debts is to be further increased by a sum equal to $\frac{1}{2}$ per cent. on the sundry debtors.

(d) Reserve £250 for fees due to directors.

(e) Insurance paid in advance amounted to : Works, £226 ; Office, £15.

(f) The balance of the Preliminary Expenses Account is to be written off.

(*R.S.A., June, 1924.*)

EXERCISE 137

1. On preparing a trial balance from a set of books the sides are found not to agree, the Dr. total being £25,305 1s. 11d. and the Cr. £25,080 12s. 9d. You are convinced that nothing has been omitted and that all the figures are arithmetically correct, all postings, additions, etc., having been independently checked.

What is the probable nature of the error made and what will be the correct totals of the trial balance ?

2. On February 15th, 1933, Colliers, Ltd., of Marine Wharf, Swansea, sent an invoice to Coal Vendors, Ltd., of 505 Moorgate, London, for 55 tons of best house coal at 28s. per ton, put on rail that day. On arrival of the coal in London, on February 18th, it was discovered that two of the trucks contained 5 tons each of kitchen coal, the value of which was 24s. per ton only, instead of house coal. Coal Vendors, Ltd., wrote the same day to Swansea giving notice of this and saying they would accept the kitchen coal, subject to proper credit being given. Colliers, Ltd., despatched a credit note next day.

On March 1st Colliers, Ltd., sent out their monthly Statements.

On March 18th Coal Vendors, Ltd., sent a cheque in settlement of the transaction, deducting $2\frac{1}{2}$ per cent. Cash discount for payment within one month.

Set out, as fully as possible, the form of the Invoice, Credit Note and Statement, and show the entries that would appear in the books of original entry and ledger of Colliers, Ltd. (The entry in the Cash Book is *not* required.)

3. X and Y are independent traders in the same line of business, their respective Balance Sheets on December 31st, 1932, being as follows :

X. Balance Sheet—December 31st, 1932

	£		£
Capital	22,400	Goodwill	2,000
Sundry Creditors	2,047	Freehold Property	2,400
		Fixtures and Fittings	530
		Stock	10,854
		Debtors	7,591
		Cash at Bank	1,072
	<u>£24,447</u>		<u>£24,447</u>

Y. Balance Sheet—December 31st, 1932

	£		£
Capital	4,660	Fixtures and Fittings	180
Bills Payable	1,200	Stock	5,171
Sundry Creditors	2,318	Debtors	3,146
Bank Overdraft	319		
	<u>£8,497</u>		<u>£8,497</u>

X and Y decided to amalgamate their businesses as from January 1st, 1933, the firm taking over all the assets and liabilities at the figures stated except Y's Fixtures and Fittings, which he was to retain and dispose of, and Y's Stock, which is to be written down by £280. The Goodwill of Y's business was agreed to be valued at £600.

Draw up the opening Balance Sheet of the partnership.

4. P. Ltd. finds that the amount spent on Repairs to Machinery varies greatly from year to year. In order to equalise the charge against profits a Reserve is built up commencing in 1929 and credited with £800 each year, actual Repairs being charged against this.

The actual amounts spent were as follows :

	£
Year to December 31st, 1929	312
" " 1930	946
" " 1931	1,353
" " 1932	227

Write up the Reserve Account, bringing down a balance each year, and state how the balances would be shown in the successive Balance Sheets of the business.

5. Sharp and Blunt are equal partners in an old-established

retail business, trading under the name of Sharp & Co. On September 1st, 1932, Rough was admitted as a partner on the terms that he was to take one-fifth of the profits as from that date (for the purpose of ascertaining this, the year's profit was to be apportioned on a time basis), Sharp's share being reduced by a similar amount. Rough on entry paid in cash for his share of the Goodwill, the amount being withdrawn by Sharp on the same day.

The following Trial Balance was extracted from the firm's books as on December 31st, 1932 :

Trial Balance—December 31st, 1932

	£	£
Sharp Capital December 31st, 1931 ..		14,000
" withdrawn September 30th,		
1932	4,800	
Sharp Current Account, December 31st, 1931 ..		312
" Drawings during 1932	2,600	
Blunt Capital, December 31st, 1931 ..		8,000
" withdrawn September 30th,		
1932	1,200	
Blunt Current Account, December 31st, 1931 ..		117
" Drawings during 1932	3,000	
Rough Capital brought in September 30th,		
1932		6,000
Rough Drawings	400	
Goodwill, December 31st, 1931	3,000	
Stock	12,336	
Furniture and fittings, December 31st, 1931 ..	1,640	
Purchases, less returns	33,208	
Sales, less returns		49,575
Carriage inwards	311	
Carriage outwards	519	
Advertising Suspense, December 31st, 1931 ..	2,000	
" expenditure during 1932	843	
Salaries and wages	3,773	
Sundry debtors and creditors	16,324	6,946
Rent and rates	1,574	
Heat, light and insurance	472	
Bank deposit interest		28
Discount		514
Trade and office expenses	751	
Bills payable and receivable	1,950	6,200
Bad debts reserve, December 31st, 1931 ..		500
" written off 1932	522	
Cash at Bank	918	
Cash in hand	51	
	<u>£92,192</u>	<u>£92,192</u>

You are required to prepare the firm's Trading and Profit and Loss Account for the year ended December 31st, 1932, together with the Balance Sheet as on that date.

Provision is to be made for the following adjustments :

- (a) Interest on Capital is allowed at the rate of 5 per cent. per annum, but no interest is to be credited in respect of Current Accounts or charged on Drawings.
- (b) Stock on December 31st, 1932, was valued at £11,432.
- (c) 5 per cent. depreciation is to be written off Furniture and Fittings.
- (d) The Bad Debts Reserve is to be made up to £600.
- (e) Half the Advertising Suspense is to be written off.
- (f) £232, representing Rates in respect of the three months to March 31st, 1933, paid in advance, is to be carried forward.

(*R.S.A., Inter., March, 1933.*)

EXERCISE 138

1. A Limited Company issues (a) Ordinary Shares, (b) Preference Shares, and (c) Debentures.

Explain shortly the meaning of each of these terms, showing particularly how each differs from the others.

2. A trader opens a shop dealing in cigarettes, sweets and stationery. In order to ascertain separately the trading profit realised by each of these commodities he adopts, as far as may be necessary, the columnar system of book-keeping.

Give suitable rulings for the Purchase Day Book and the Nominal Account(s) affected, and insert sufficient entries to make clear the working of the system.

3. On what basis should "Fixed Assets" be valued for the purpose of the Balance Sheet of a trading business?

Illustrate your answer by showing how you would deal with a motor lorry bought for £450, which it is expected will have to be disposed of in five years' time, when it will probably realise £25.

4. Richards and Harris are in partnership, sharing profits in the proportion of 3 to 2.

On December 31st, 1931, the assets owned by the firm, less the liabilities, are valued at £3,148 and on December 31st, 1932, at £3,878.

During the year 1932 Richards has drawn £1,400 in cash and taken goods valued at £75, and Harris has drawn £1,200 in cash, while Jones (a friend of Richards') has lent the firm £500 which has not yet been repaid. Harris at the same time brought in £200 as additional capital, which he borrowed privately from Smith.

Ascertain the firm's profit for the year and the amount by which each partner's capital has increased or decreased.

5. Quick Sales, Ltd., was incorporated on June 1st, 1932, with an authorised capital of £500,000, divided into 200,000 7 per cent. Preference Shares and 300,000 Ordinary Shares, all of £1 each. The month of June was occupied in procuring the necessary capital, etc., and trading commenced on July 1st.

The following was the Trial Balance extracted from the books as on April 30th, 1933, the end of the first period of account :

Trial Balance

	£	£
Preference Shares : application and allotment 5s. on 100,000 shares		25,000
Preference Shares, calls, 10s. per share		50,000
" calls in arrear	465	
Ordinary Shares : application and allotment, 5s. on 120,000 shares		30,000
Ordinary Shares, calls, 15s. per share		90,000
Freehold property, purchased 30/6/32	95,000	
Fixtures and fittings, purchased 30/6/32	5,400	
Delivery vans, purchased 30/6/32	9,600	
Purchases, less returns	93,187	
Sales, less returns		99,186
Sundry debtors	47,193	
Sundry creditors		7,346
Preliminary expenses	6,140	
Advertising	10,248	
Wages and salaries, office, etc.	2,797	
Travellers' salaries and commission	3,392	
Directors' fees	2,000	
Rates and insurance	3,842	
Bank deposit interest		46
Stamps, stationery and telephone	541	
Bad debts written off	212	
Bills receivable	3,400	
Discounts	1,429	
Packing materials	1,627	
Carried forward	£286,473	£301,578

Trial Balance—*continued*

	£	£
Brought forward	286,473	301,578
Delivery van expenses	1,731	
Interest on calls in arrear		13
Sundry trade expenses	636	
Cash at Bank	12,439	
Cash in hand	312	
	<u>£301,591</u>	<u>£301,591</u>

You are required to prepare a Trading and Profit and Loss Account for the period ended April 30th, 1933, and a Balance Sheet as on that date, taking into consideration the following information and instructions :

- (a) Stock in trade on April 30th, 1933, was valued at £31,429, and Packing Materials at £83.
- (b) £1,400 is to be reserved for Bad and Doubtful Debts.
- (c) One half of the expenditure on Advertising is to be carried forward.
- (d) Depreciation is to be written off the Fixtures and Fittings at the rate of 5 per cent. per annum, and off the Delivery Vans at the rate of 20 per cent. per annum.
- (e) £805 is to be reserved for one month's rates accrued and outstanding and £76 for Travellers' Commission.
- (f) One quarter of the Preliminary Expenses is to be written off.
- (g) £38, representing insurance for two months, is to be carried forward.

(*R.S.A., Inter., April, 1933.*)

EXERCISE 139

1. Set out the Journal entries to deal with the following matters in the books of a newly formed Limited Company :
 - (a) The allotment of 20,000 Ordinary Shares of £1 each, of which 1s. per share has been paid on application and 4s. is due on allotment. (Only the entry relating to the *allotment* is required.)
 - (b) The allotment of £10,000 Debenture Stock issued at a discount of 5 per cent., paid in full on application.
 - (c) The writing off of the whole of the above Discount.
 - (d) The taking over from the vendors of Patent Rights

valued at £8,000 and Goodwill valued at £7,000 and the issue of fully paid Ordinary Shares in settlement for the same.

2. Give an example of a bill of exchange which has been accepted, and explain by reference to it the following terms :

- (a) Drawer.
- (b) Drawee.
- (c) Payee.
- (d) Acceptor.
- (e) Tenor.

3. The following is the account of Sellers Limited as it appears in the books of Buyers Limited, for the month of April, 1933 :

<i>Dr.</i>		Sellers Limited, 999 Cheapside			<i>Cr.</i>	
		£	s.	d.		£ s. d.
April 30	To Cash ..	120	-	-	April 1	By Balance b/f 112 4 6
„ 30	„ Balance c/d	84	8	9	„ 7	„ Goods .. 41 10 9
					„ 10	„ „ .. 18 6 6
					„ 15	„ „ .. 32 7 -
		<u>£204</u>	<u>8</u>	<u>9</u>		<u>£204 8 9</u>
					May 1.	By Balance b/d .. £84 8 9

The statement for the month forwarded by Sellers Limited shows the following :

April 1	To Balance ..	..	..	..	..	212 14 6
„ 6	„ Invoice No. 1117	..	..	41	10 9	
„ 9	„ „ 1165	..	..	18	16 6	
„ 14	„ „ 1346	..	..	33	14 3	
„ 19	„ „ 1522	..	..	15	4 3	
					<u>109 6 0</u>	
						<u>332 0 6</u>
	Less—Cheque, April 1	..	..	100	0 0	
	Cr. Note No. 42, April 16	..	..	1	7 6	
					<u>101 7 6</u>	
						<u>£220 13 0</u>

Prepare a statement showing how the difference is made up and suggest (as far as possible) how each of the discrepancies shown may have arisen.

4. Brown, Johnson and Green are in partnership. On July 1st, 1932, their Capitals, on which interest at the rate of 5 per cent. per annum is allowed, were £10,000, £6,000 and £2,000 respectively, and on January 1st, 1933, Johnson brought in a further £1,000.

Green is entitled to a salary of £400 per annum, of which £300 is charged against Brown's share of profits and £100 against Johnson's. The first £2,000 of profit, after charging interest, is divisible between Brown, Johnson and Green in the proportions of 5, 4 and 1 respectively; the next £2,000 in the proportions of 9, 8 and 8; the next £2,000 in the proportions of 8, 7 and 5, and any balance equally between the three.

The profit for the year ended June 30th, 1933, amounted to £6,125, before charging interest.

Prepare a statement showing the division between the partners.

5. John Jones, Limited, has an authorised capital of £150,000, divided into 50,000 6 per cent. Cumulative Preference Shares, 80,000 Ordinary Shares, and 20,000 Deferred Shares. On March 31st, 1933, there were in issue and fully paid 30,000 Preference Shares and the whole of the Ordinary and Deferred Shares. The interest on the Preference Shares was in arrear since April 1st, 1930.

In October, 1932, the directors declared eighteen months' dividend on the Preference Shares.

The following was the Trial Balance extracted from the Company's books as on March 31st, 1933 :

	Dr. £	Cr. £
6 per cent. Cumulative Preference Shares		30,000
Ordinary Shares		80,000
Deferred Shares		20,000
Goodwill	15,000	
5 per cent. Debentures		30,000
Debenture interest (paid to 31/12/32) ..	1,125	
Freehold premises	50,000	
Machinery and plant, 31/3/32	44,000	
" " bought 30/9/32	4,000	
Sundry debtors and creditors	21,692	6,571
Profit and Loss Account, 31/3/32		953
Preference dividend paid	2,700	
Office furniture, 31/3/32	620	
Carried forward	£139,137	£167,524

Trial Balance—*continued*

	Dr. £	Cr. £
Brought forward	£139,137	£167,524
Stock-in-trade, 31/3/32	42,870	
Cash at Bank	422	
Cash in hand	96	
Purchases, less returns	10,593	
Sales, less returns		50,088
Carriage outwards	1,093	
Carriage inwards	958	
Directors' fees	3,000	
Office salaries and wages	5,392	
Factory wages	6,241	
Factory power	1,476	
Repairs to machinery	645	
Advertising	5,175	
Factory expenses	721	
Office expenses	846	
Law charges and audit fee	394	
Loose tools (valuation 31/3/32 and purchases since)	628	
Heat and light	860	
Postage, stationery and telephone	247	
Discount		1,149
Bad debts written off	1,017	
Reserve for bad and doubtful debts, 31/3/32		750
Bills payable		2,100
	<u>£221,611</u>	<u>£221,611</u>

You are required to prepare the Company's Manufacturing and Profit and Loss Account for the year ended March 31st, 1933, and a Balance Sheet as on that date, and to say whether it would be possible (if desired) to declare any dividend on the Ordinary Shares. In preparing the Accounts you are to have regard to the following information and instructions :

- The Stock-in-Trade on March 31st, 1933, was valued at £40,612 and the Loose Tools at £391.
- Nine-tenths of the Heat and Light is to be apportioned to the Factory and one-tenth to the Office.
- The item Factory Wages includes the cost of workmen's time (valued at £37) spent in effecting repairs to the Company's own machinery.
- Depreciation is to be written off the machinery at the rate of 10 per cent. per annum, and off

the Office Furniture at the rate of 5 per cent. per annum.

- (e) The Bad Debts Reserve is to be increased by £150.

(*R.S.A., Inter., July, 1933.*)

EXERCISE 140

1. P. Q. & Co. make their sales ledger and bought ledger self-balancing by means of separate adjustment accounts.

At the end of the year the schedule of trade creditors agrees with the balance of the bought ledger adjustment account, the schedule of debtors is less than the balance of the sales ledger adjustment account by £9, and the nominal ledger trial balance (which incorporates the adjustment accounts) agrees.

State what you can infer about the nature or position of the error (or errors) in the books, and give examples of three different kinds of error any of which separately would cause the result shown.

2. The account of A. Buyer in the books of Wholesalers Limited showed a debit balance of £15 9s. 3d. on January 1st, 1933. The following transactions subsequently took place :

- (a) On January 10th Buyer purchased goods (on credit) to the value of £40.
- (b) On January 13th he returned £5 of them as not up to sample and was given credit for the same.
- (c) On February 5th he forwarded a cheque in settlement of his account, deducting 5 per cent. discount in respect of the January purchase for settlement within one month.
- (d) On May 18th he paid a deposit of £100 on account of future purchases, in consideration of which he was to receive a discount of 10 per cent. on gross purchases covered by this amount.
- (e) On June 23rd he ordered goods to the (gross) value of £40, on August 17th goods to the value of £50, and on August 29th goods to the value of £60.
- (f) In November Buyer was adjudicated bankrupt, and the statement of affairs showed that the creditors would probably receive 5s. in the £. When closing their books at the end of December, Wholesalers Limited wrote the expected loss off the account.

- (g) On February 1st, 1934, a cheque for £10 5s. 6d. was received from the trustee in bankruptcy in final settlement.

You are required to write up Buyer's account in the books of Wholesalers Limited.

3. Set out the journal entries necessary to deal with the following matters :
- The writing off as bad debts of £55 due from A., £19 7s. 6d. from B., and £27 15s. from C.
 - The allocation of £1,000 to General Reserve.
 - The transfer to Furniture and Fittings of £25, the cost of a typewriter originally posted to Office Expenses.
 - The bringing into account of three months' interest accrued on a loan of £500 at 5 per cent. per annum, due from D.
 - The loss arising on the sale for £37 of a machine, the book value of which is £55.
4. The following is the Trial Balance extracted from the books of Jones & Co. as on February 28th, 1934 :

	<i>Dr.</i> £	<i>Cr.</i> £
Jones, Capital, 28/2/1933		6,000
Current Account, 28/2/1933		319
Drawings	1,500	
Smith, Capital, added, 28/2/1933		4,000
„ added, 31/5/1933		1,000
Current Account, 28/2/1933	104	
Drawings	1,000	
Brown, Capital, 28/2/1933		2,000
Current Account, 28/2/1933		54
Drawings	480	
Goodwill	1,500	
Stock, 28/2/1933	6,374	
Purchases and Sales	22,503	32,473
Debtors and creditors	3,451	2,372
Carriage inwards	112	
Carriage outwards	317	
Advertising	1,436	
Wages and salaries	3,545	
Discount		117
Bad debts	380	
Bills receivable	2,500	
Furniture and fittings	620	
Carried forward	£45,822	£48,335

Trial Balance—*continued*

				<i>Dr.</i> £	<i>Cr.</i> £
Brought forward	..	..	..	£45,822	£48,335
Rent, rates and insurance	..	..	..	1,761	
Trade and office expenses	..	..	..	976	
Bank overdraft	..	..	..		246
Cash in hand	..	..	..	22	
				<u>£48,581</u>	<u>£48,581</u>

Interest is allowed on capital accounts (but not on current accounts, etc.) at the rate of 6 per cent. per annum.

Brown is entitled to a partnership salary (included in his drawings) of £200 per annum, and the balance of profit is shared between the partners in the order named in the proportions of 6, 4 and 1.

Draw up the firm's Profit and Loss Account for the year ended February 28th, 1934, providing 5 per cent. depreciation on furniture and fittings and writing £250 off the goodwill; also prepare the Balance Sheet as on that date. The stock in hand on February 28th, 1934, was valued at £8,458.

5. Beta Gamma Limited was formed to take over as from March 31st, 1933, the business of a private trader whose Balance Sheet on that date was as follows :

	£		£
Capital	46,000	Plant and Machinery ..	17,300
Sundry Creditors ..	5,471	Vans and Lorries ..	3,940
		Fixtures and Fittings ..	600
		Stock	19,731
		Debtors	7,978
		Cash	1,922
	<u>£51,471</u>		<u>£51,471</u>

The Company took over all the assets, including cash, at the book values and assumed responsibility for the liabilities. The goodwill was valued at £9,000.

The authorised capital of Beta Gamma Limited consisted of 40,000 6 per cent. Preference Shares of £1 each, 286,000 Ordinary Shares of 5s. each, and 20,000 Deferred Shares of 1s. each. The vendor took the whole of the Deferred Shares and the balance of the purchase considera-

tion in Ordinary Shares, all at par, and on April 30th, 1933, 20,000 of the Preference Shares were subscribed privately at a premium of 1s. per share and fully paid. £15,000 was spent on new machinery, the balance being retained as working capital.

Six months' dividend on the Preference Shares was paid on October 31st, 1933.

On closing the books on December 30th, 1933, £8,000 was provided for depreciation of plant and machinery, £440 for depreciation of vans and lorries, and £30 for depreciation of fixtures and fittings, and £620 was provided as a reserve for bad and doubtful debts. The remaining balances, after closing the Profit and Loss Account, in addition to those already indicated, were :

	£
Sundry creditors	4,597
Stock, December 31st, 1933	29,388
Sundry debtors	11,396
Cash	5,605
Net profit for the period	8,142

You are required to draw up the Company's Balance Sheet as on December 31st, 1933.

(*R.S.A., Inter., 1934.*)

EXERCISE 141

1. On January 3rd Q purchased from P goods to the value of £600 and settled the account by means of three bills of exchange for £200 each, due respectively in two, three and four months. A week later P discounted the first of the three with his bank, receiving £199 5s. 8d. ; the others he held.

The first two bills were paid at maturity. The third Q was unable to meet and it was retired by arrangement, Q paying £50 in cash and giving P a fresh bill for three months to cover the balance with interest at the rate of 5 per cent. per annum. P discounted this on May 10th for £150 5s. 9d.

Set out the entries recording the above in P's ledger. (The cash book is not required.)

2. Give two reasons why interest on capital accounts should be taken into account in dividing the profits of a partnership.

Mention a case, if you know of one, where one of these reasons does not apply.

3. A, a sole trader owning an established business, took B into partnership on January 1st, 1933, at which date the goodwill of the business was agreed to be worth £6,000. A's capital (exclusive of goodwill) was £10,000, and B brought in £3,000 as his capital. Interest on capital accounts was to be allowed at 5 per cent., and A and B were to divide the remaining profit in the ratio of 2 to 1.

The profit for 1933, before charging interest, was £2,600.

Calculate the division of this sum between A and B on the alternative assumptions that :

- (1) Goodwill was ignored on B's entering the business.
- (2) Goodwill was taken into account at its correct value.

4. On January 1st, 1934, a trader obtained his pass book and on comparing it with his cash book discovered that all items agreed except the following :

- (a) Cheques drawn and entered in the cash book, totalling £317 5s. 9d., had not been presented at the bank.
- (b) A country cheque for £17 10s. lodged the previous day, did not appear in the pass book.
- (c) The pass book showed an item of interest on overdraft amounting to £7 3s. 3d. not entered in the cash book.
- (d) The trader had, in December, discounted with the bank bills of exchange for £1,200 and entered this amount in his cash book. The proceeds credited, as shown by the pass book, amounted to £1,193 1s. 5d.

The trader's cash book showed a balance, on December 31st, 1933, of £219 17s. 6d. overdrawn.

State (a) what balance the pass book showed on the same day and (b) what would be the balance of the trader's cash book after making the necessary additional entries.

5. Square Deals, Limited, is an old-established company having an authorised capital of £200,000, divided into 100,000 6 per cent. Cumulative Preference Shares, 50,000 Preferred Ordinary Shares, and 50,000 Deferred Ordinary Shares,

all of £1 each. The Preferred Ordinary Shares carry a right to a non-cumulative dividend of 10 per cent. per annum in priority to the Deferred Ordinary Shares but have no further participation in profits.

On March 31st, 1933, the dividend on the 6 per cent. Preference Shares was in arrear since September 30th, 1931, and no dividend had been paid on the Preferred Ordinary Shares since April, 1930.

The following was the trial balance extracted from the books as on March 31st, 1934 :

Trial Balance

	£	£
70,000 6 per cent. Preference Shares ...		70,000
30,000 Preferred Ordinary Shares		30,000
30,000 Deferred Ordinary Shares		30,000
5 per cent. Debentures		40,000
Debenture discount	2,000	
Interest on debentures, to 31/12/33 ..	1,500	
Trade marks and goodwill	27,200	
Furniture, fixtures and fittings	1,425	
Purchases and sales	123,415	162,618
Bought ledger balances	163	7,568
Sales ledger balances	44,517	27
Delivery vans, 31/3/33	7,120	
" purchased 30/9/33	2,280	
Delivery van expenses (other than wages)	514	
Advertising	3,009	
Wages and salaries	12,796	
Discount		1,752
Bad debts reserve 31/3/33		1,293
" written off	1,810	
" previously written off, now re- covered		45
Stock, 31/3/33	88,212	
Rent and rates	4,307	
Heat, light and insurance	2,466	
Sundry trade expenses	1,523	
Discount on bills	52	
Dividends unclaimed		193
Profit and Loss Account, 31/3/33		1,241
Preference dividend, paid to 30/9/33 ..	8,400	
Cash at Bank and in hand	12,462	
Expenses accrued (not including Debenture interest)		746
Ditto paid in advance	373	
Bank deposit interest		61
	<u>£345,544</u>	<u>£345,544</u>

You are required to draw up the final accounts of the Company as on March 31st, 1934, taking into account the following :

- (a) Stocktaking took place on March 29th, 1934, the stock being then valued at £98,896. Purchases on March 30th and 31st amounted to £677, and sales to £620, these transactions all having been duly passed through the books ; the proportion of gross profit included in these sales is to be taken as 80 per cent.
- (b) £1,000 is to be written off the Trade Marks and Goodwill and £500 off the Debenture Discount.
- (c) The Furniture and Fittings are to be depreciated at the rate of 8 per cent. per annum, and the Delivery Vans at 15 per cent. per annum.
- (d) All Expenses in connection with the delivery vans are to be grouped as carriage. The wages of drivers, etc. (included in the general wages), amounted to £1,208. The vans are used only for deliveries to customers.
- (e) The Bad Debts Reserve is to be reduced to £1,117.
- (f) Bills amounting to £7,750, discounted by the Company, had not yet matured.

State also what amount, if any, is available for the payment of dividend on the Deferred Ordinary Shares.

(*R.S.A., Inter., 1934.*)

EXERCISE 142

1. In 1932 a trader, X, wrote off as a bad debt £19 15s. 4d., the balance of an account due to him by Y.

In 1933 Y paid the debt in full. Show by means of journal entries how the recovery of this debt would be dealt with in closing X's books for 1933, on the assumption that :

- (a) the cash received was posted to the credit of Y's account,
- (b) the cash was posted to a nominal account.
2. Explain the meaning of the following terms, in connection with a limited company :
 - (a) Debentures.
 - (b) Preliminary Expenses.
 - (c) Underwriting Commission.
 - (d) Forfeiture of Shares.

3. On January 1st, 1930, a business purchased a motor delivery van for £800.

Show how the account would appear in the books of the business for the four following years assuming that depreciation is written off (a) by the "fixed instalment" method, and (b) by the "diminishing balance" method, the rate of depreciation being 20 per cent. in each case.

State, giving your reasons shortly, which method of depreciation you consider is more appropriate for an asset of this sort.

4. X sets up in practice as a doctor on January 1st, 1932. During 1932 he received fees amounting to £545, and at the end of the year £237 was owing to him. During 1933 the fees received amounted to £831, and at the end of the year £364 was owing to him. His expenses amounted to £265 in 1932 and £320 in 1933, there being no liabilities outstanding at the end of either year.

Ascertain his profit for each of these years.

5. Give a ruling for a petty cash book with separate analysis columns for wages, national insurance, postage and stationery, and office expenses.

Insert sufficient entries to illustrate fully the method of using a book of this description and briefly explain its advantages.

6. On December 31st, 1933, Farmer & Co., a firm of jewellers (partners A. Farmer and B. Giles, sharing profits in the proportion of 3 to 2), absorbed the business of C. Harris. After charging 5 per cent. interest on capital accounts Harris was to receive one-quarter of the firm's profit, the other partners dividing the remainder in the same proportion as before. The firm's books had last been closed as on June 30th, 1933, and no accounts were prepared up to December 31st, but Harris was to share in the full profits of the year to June 30th, 1934, on the basis of his bringing into account the actual profits earned by him for the six months ended December 31st, 1933. This profit was agreed at £547. There was also a provision as to goodwill, as stated in instruction (a) below.

The Trial Balance extracted from the firm's books as on June 30th, 1934, was as follows :

Trial Balance					
Capital Accounts :					
			£		£
Farmer, 30/6/33	..	..	..		20,000
Giles, 30/6/33	..	..	..		10,000
Harris, 31/12/33	..	..	..		7,000
Goodwill	..	..	..	2,000	
Furniture and fittings, 30/6/33	..	..	..	1,180	
"	"		per Harris, 31/12/33	720	
Stock, 30/6/33	..	..	..	22,155	
"		per Harris, 31/12/33	..	10,701	
Purchases	..	..	..	25,356	
Carriage outwards	..	..	..	77	
Sales	..	..	..		35,305
Salaries and wages	..	..	..	1,955	
Current Accounts, 30/6/33 :					
Farmer	..	..	..		147
Giles	..	..	..		592
Cash Drawings :					
Farmer	..	..	..	3,000	
Giles	..	..	..	2,000	
Harris	..	..	..	750	
Advertising	..	..	..	316	
Bills receivable and payable	..	..	..	3,600	12,500
Travellers' salaries and commission	..	..	..	1,310	
Rent and rates	..	..	..	1,675	
Bad debts	..	..	..	280	
Shop and trade expenses	..	..	..	568	
Trade debtors and creditors	..	..	..	8,593	3,047
Heat, light and insurance	..	..	..	374	
Postage, stationery and telephone	..	..	..	142	
Interest and bill discounting charges	..	..	..	53	
Receipts from repairs	..	..	..		406
Cash at bank and in hand	..	..	..	2,192	
				<u>£88,997</u>	<u>£88,997</u>

You are required to prepare the firm's Trading and Profit and Loss Account for the year ended June 30th, 1984, and the Balance Sheet as on that date, making adjustments to deal with the following matters :

- (a) It had been agreed that before the amalgamation the Goodwill Account, previously standing in the firm's books at £2,000, should be raised to £5,000. This entry had not been made. It was also agreed at the end of the year of account to write £1,000 off the goodwill.
- (b) Stock on hand on June 30th, 1984, was valued at £86,827.

- (c) The "Trade Debtors" included £60 for stock taken by Farmer and £40 for stock taken by Harris.
- (d) One quarter's rent amounting to £250 and travellers' commission amounting to £58 were due and unpaid on June 30th, 1934, and the rates had been paid up to September 30th, 1934, the last payment being £368 for the half-year.
- (e) £525 of the Salaries and Wages represents the wages of workmen employed for repairing and altering items of jewellery, and Shop and Trade Expenses includes £59 representing the cost of materials used by these workmen.
- (f) The furniture is to be depreciated at the rate of 10 per cent. per annum.

(*R.S.A., Inter., 1934.*)

EXERCISE 143

1. A, B and C are partners in a retail business. Give the Journal entries necessary to record the following matters, on closing the books as on December 31st, 1934, the end of the year of account :
 - (a) The provision of £37 10s. as depreciation on shop fixtures and fittings.
 - (b) The charging to A of £3 10s. representing a week's wages paid by the firm to one of their van drivers, he having been employed by A during that period to drive his private car.
 - (c) The adjustment arising out of the fact that stock valued at £42 (at cost) had been distributed as free samples to the public.
 - (d) The charging of interest for the year at 5 per cent. on the partners' capital accounts, which were, respectively, A £9,000, B £7,000, and C £4,000.
2. On January 1st, 1930, X Ltd. bought machinery costing £8,000 in all. Depreciation was written off at 10 per cent. per annum on the "diminishing balance" method, the books being closed annually on December 31st.

On June 30th, 1931, additional machinery was bought, costing £1,600. On December 31st, 1933, a machine (part of the purchase in 1930) which had cost £500 was sold for £210 and replaced by one of an improved type costing £610.

Write up the Machinery Account from the commencement to December 31st, 1934.

3. On July 1st, 1934, Y bought from Z goods valued at £2,000. In settlement he gave two bills of exchange, for £1,000 each, due on November 1st and December 1st respectively. The first was paid on maturity, but the second was dishonoured.

Show the ledger accounts in Z's books.

4. The following errors have been made during 1934 in a set of books :
- (a) The sales day book was undercast by £10 in April.
 - (b) A customer's personal account has been correctly credited with 15s. 3d. discount but no corresponding entry made in the discount column of the cash book.
 - (c) Discounts allowed for July, amounting to £7 4s. 9d., were posted to the credit, instead of the debit, of discount account.
 - (d) A debit balance on a customer's account was carried forward 10s. short.
 - (e) An old credit balance of £2 5s. standing on a customer's account was entirely overlooked when extracting the balances.

Draw up a statement showing the effect of each of these errors on the trial balance drawn up at the end of the year and state what "difference" the trial balance will show.

5. Moorgate Traders Limited has an authorised capital of £500,000 divided into 250,000 6 per cent. Cumulative Preference Shares and 250,000 Ordinary Shares all of £1 each.

The following Trial Balance was extracted from the Company's books as on December 31st, 1934 :

Trial Balance					
		£		£	
Preference share capital, fully paid	..			150,000	
Ordinary share capital, 31/12/34 :					
100,000 shares fully paid	.. ..			100,000	
100,000 shares of 15s. called	.. ..			75,000	
Calls unpaid	.. ..	285			
5 per cent. debentures	.. ..			40,000	
Debenture discount	.. ..	3,000			
" interest	.. ..	2,000			
Carried forward	.. ..	£5,285		£365,000	

Trial Balance—*continued*

	£	£
Brought forward	£5,285	£365,000
Profit and Loss Account, 31/12/33		5,675
Preference dividend paid to 30/6/34	4,500	
Goodwill	22,500	
Stock, 31/12/33	94,150	
Purchases and sales	169,788	185,293
Carriage inwards	1,128	
" outwards	3,072	
Wages, salaries and commission :		
Management	3,000	
Showroom and office	3,814	
Travellers	2,524	
Directors' fees	1,100	
Loans to directors	6,500	
Interest received thereon		325
Rent	5,000	
Rates, heating and lighting, etc.	4,106	
Advertising	4,182	
Insurance	482	
Discounts received		2,416
Bad debts	212	
Trade debtors and creditors	48,675	3,256
Investments	155,145	
Dividends received therefrom		8,600
Legal expenses and audit fee	315	
Repairs to premises	308	
Alterations to premises	8,000	
Sundry trade expenses	1,431	
Cash at Bank	19,210	
" in hand	261	
Dividends unclaimed		63
Furniture and fittings	5,940	
	<u>£570,628</u>	<u>£570,628</u>

You are required to draw up the Company's Trading and Profit and Loss Account for the year ended December 31st, 1934, and Balance Sheet as on that date, making adjustments in accordance with the following information :

- (a) Stock in hand on December 31st, 1934, was valued at £122,507.
- (b) £2,500 is to be written off Goodwill, £1,000 off the Debenture Discount, and £500 off the Alterations to Premises.
- (c) £800 of the Advertising is to be carried forward.
- (d) £118 is to be carried forward representing insurance paid

in advance, and reserves are to be made for £98 in respect of travellers' commission and £100 in respect of directors' fees.

- (e) 5 per cent. depreciation is to be written off the furniture and fittings.
- (f) A Reserve for Bad and Doubtful Debts is to be raised, equal to 4 per cent. of the trade debtors.

(*R.S.A., Inter., April, 1935.*)

EXERCISE 144

1. Give a ruling for an analysed form of petty cash book ; insert specimen entries for a short period and show what postings are made.

How would you deal with any exceptional payments not falling under one of the columnar headings provided for ?

2. On February 1st B. Grey owed A. White £6 5s. for goods supplied.

On February 13th he bought from White on credit three shirts at 8s. 11d. each, six pairs of socks for 13s. 6d., and a pair of flannel trousers for 17s. 11d. The following day he sent a cheque for £5 on account, and on February 20th he bought a dressing gown for £1 7s. 6d.

Set out in full the invoice made out by White relating to the purchases on February 13th, and the statement at the end of the month.

3. On May 1st, 1935, Black converted his business into a limited company. The assets of the business consisted of :

	£
Goodwill	2,000
Machinery and plant	7,500
Furniture and fixtures	640
Stock	8,950
Debtors	4,410
Cash	620

and sundry creditors amounted to £1,090.

All the above were taken over by the company at the values shown, except that the Goodwill was written up to £3,000 and £250 provided as a Reserve for Bad and Doubtful Debts. Black received £5,000 in Preference

Shares and the balance in Ordinary Shares, all of £1 each and fully paid.

Set out the Journal entries recording the above in the new books opened by the company.

4. The following list of balances shows the position of South Place, Limited, on January 31st, 1935 :

	£
Ordinary shares of £1 fully paid	20,000
Goodwill	2,000
Freehold premises	3,000
Stock	6,958
Sundry debtors	5,140
Sundry creditors	1,710
Bad debts reserve	257
Bills payable	1,000
Bills receivable	3,500
Office furniture	750
Cash	1,619

During February, 1935, the summary of cash transactions was as follows :

Received : from debtors £2,751 (discount allowed, £218), from bill matured £500, from bills for £1,000 discounted £993, from cash sales £321.

Paid : a dividend to shareholders £1,000, to creditors £1,318 (discount received £22), bill payable £750, salaries and wages £416, sundry expenses £565. The last item included a new office safe, which cost £60.

Credit sales for the month amounted to £3,582, and bills receivable accepted by customers amounted to £650. £45 of the sundry debtors were written off as finally bad.

Purchases for the month amounted to £1,910, and bills for £325 were accepted by the company in favour of creditors.

Write up all the accounts, bring down balances, and draw up a trial balance as on February 28th.

5. Brown and Green were in partnership, sharing profits in the proportion of 3 to 2. On July 1st, 1934, Grey, one of the firm's employees, became a partner on the terms that he was to receive a salary of £400 per annum and 4 per cent. of the profit remaining, Brown and Green sharing the balance in the same proportion as before.

The following was the Trial Balance extracted from the books as on March 31st, 1935 :

Trial Balance		Dr.	Cr.
		£	£
Brown :	Capital, March 31st, 1934.. ..		16,000
	Capital withdrawn June 30th ..	480	
	Current Account, March 31st, 1934		218
	Drawings for year	4,800	
Green :	Capital, March 31st, 1934.. ..		6,000
	Capital withdrawn, June 30th ..	160	
	Current Account, March 31st, 1934		346
	Drawings for year	3,000	
Grey :	Capital, brought in June 30th, 1934		800
	Drawings for nine months (including partnership salary) ..	450	
	Machinery and plant, March 31st, 1934 ..	5,380	
	Office furniture, March 31st, 1934 ..	620	
	Stock, March 31st, 1935	11,688	
	Debtors and creditors	5,158	572
	Gross profit for the year		19,010
	Rent and rates	2,822	
	Salaries and commission	4,320	
	Advertising	1,428	
	Discount		309
	Sundry trade expenses	906	
	Insurance	116	
	Bank interest		18
	Bad debts reserve		112
	Investment (£600 War Loan)	617	
	Interest received therefrom		21
	Cash at Bank and in hand	1,461	
		<u>£43,406</u>	<u>£43,406</u>

Prepare the firm's Profit and Loss Account for the year ended March 31st, 1935, and Balance Sheet as on that date, having regard to the following information :

- (a) Interest on capital accounts is allowed at the rate of 5 per cent. per annum, but no interest is credited in respect of current accounts or charged on drawings.
- (b) In order to ascertain Grey's share for the nine months, the profits are to be apportioned on a time basis. For this purpose the profit is to be increased by the difference between Grey's salary for the first three months as an employee at the rate of £600 per annum, and the

salary he would have received had he been a partner during this period.

- (c) Reserves are to be made for one quarter's rent, £165, and advertising, £31. Insurance paid in advance amounts to £48.
- (d) Depreciation on machinery is to be charged at 10 per cent., and on office furniture at 5 per cent.
- (e) The Bad Debts Reserve is to be made up to £300.

(*R.S.A., Inter., June, 1935.*)

EXERCISE 145

1. A, a sole trader, prepared accounts as on March 31st, 1934, when his capital account showed a balance of £9,000. On April 1st he took in B as a partner on the terms that before B's entry a goodwill account for £4,000 should be raised, that B should bring in £3,000 in cash as his capital, interest at 5 per cent. per annum should be allowed on capital accounts and the balance of profit be divided between A and B in the proportion of 3 to 1.

The profit for the year to March 31st, 1935, before charging interest, was £4,050. Show the division of this between A and B. Show also what the division would have been had no provision been made as to goodwill, the other arrangements being as stated above.

2. On January 3rd, 1935, a limited company issued a prospectus offering for subscription 100,000 Ordinary Shares of £1 each at a premium of 2s. per share and 500 Debentures of £100 each at the issue price of 95. As regards the shares, 2s. per share was payable on application, 10s. (including the premium) on allotment, and the remaining 10s. on March 1st, 1935. The Debentures were payable £10 on application and £85 on allotment.

Applications were received for 72,000 of the shares and the whole of the debentures, and these were duly allotted.

Set out the ledger accounts recording the above, together with the cash book entries, assuming that the allotment took place on January 10th, all cash due on allotment was received on January 18th, and that £35,500 of the call money due on the shares was received on March 4th, the balance remaining unpaid.

Also set out the entries resulting in the Balance Sheet on

March 31st, 1935, assuming half the Debenture Discount to have been written off.

3. Explain why it is necessary periodically to write off depreciation from assets of a wasting nature.
4. A trader wishes to ascertain separately the gross profit earned by each of the two departments which comprise his business.

Show how the columnar system of book-keeping would allow him to do this without opening any additional books or accounts. Give any necessary rulings and explain how the system works.

5. Smith and Jones were in partnership in a retail business, their capital accounts on June 30th, 1934, being £30,000 and £20,000 respectively. As from July 1st, 1934, the business was converted into a limited company which took over all the assets and liabilities of the partnership at their book values with an addition of £5,000 for Goodwill. The partners received as consideration £7,500 in cash and the balance in ordinary shares of £1 each, and a further 10,000 shares were issued for cash at par to a friend. On September 30th another friend took a 5 per cent. Debenture for £10,000 at par. The company continued using the books of the partnership without making the opening adjusting entries, and the Trial Balance extracted as on June 30th, 1935, was as follows :

Trial Balance

	<i>Dr.</i> £	<i>Cr.</i> £
Smith Capital Account, 30/6/34		30,000
Cash paid to Smith	4,000	
Jones' Capital Account, 30/6/34		20,000
Cash paid to Jones	3,500	
Shares issued for cash		10,000
5 per cent. debenture		10,000
Interest paid thereon to 31/3/35	250	
Leasehold premises, 30/6/34	9,500	
Stock, 30/6/34	23,511	
Motor vans, 30/6/34	2,945	
Motor vans bought, 31/12/34	1,700	
Furniture and fittings, 30/6/34	980	
Debtors and creditors	18,608	1,055
Purchases	61,208	
Carried forward	£126,202	£71,055

Trial Balance—*continued*

	Dr. £	Cr. £
Brought forward	£126,202	£71,055
Purchases returns		1,737
Sales		69,977
Sales returns	936	
Packing materials	618	
Salaries and wages, office, etc. ..	3,517	
Travellers' salaries and commission ..	1,241	
Advertising	1,710	
Rates and insurance	748	
Heating, light and water	339	
Bad debts	512	
Preliminary expenses	723	
Postage, stationery, and telephone ..	315	
Rent of premises sub-let		100
Motor van running expenses	1,230	
Discount	642	
Interim dividend paid	1,725	
Cash at Bank	2,293	
Cash in hand	118	
	<u>£142,869</u>	<u>£142,869</u>

You are required to prepare the Company's Trading and Profit and Loss Account for the year ended June 30th, 1935, and Balance Sheet as on that date, having regard to the following instructions :

- (a) The lease of the premises expires on June 30th, 1953, and is to be written off by equal annual instalments, the instalments being considered as rent.
- (b) The stock in trade on June 30th, 1935, was valued at £31,950, and packing materials at £23.
- (c) The motor vans are to be depreciated at the rate of 20 per cent. per annum, and the furniture and fixtures at 10 per cent.
- (d) One-third of the preliminary expenses is to be written off.
- (e) Smith had guaranteed the debtors at the date of the company's formation to be good, and the bad debts written off included £393 so guaranteed. A bad debts reserve of £750 is to be raised, together with a discount reserve of £200.
- (f) A reserve is to be made for £91, travellers' commission for June, unpaid.

(R.S.A., Inter., July, 1935.)

**GLASGOW AND WEST OF SCOTLAND COMMERCIAL COLLEGE
EXAMINATION PAPERS**

The three tests which follow were set by the Glasgow and West of Scotland Commercial College. The time allowed for each test is the same as for the Royal Society of Arts—three hours. The maximum number of marks allotted to each question is shown in brackets.

EXERCISE 146

1. The following is the Trial Balance of the books of Messrs. A & B, at December 31st, 1927 :

		Trial Balance			
		<i>Dr.</i>		<i>Cr.</i>	
		£	s. d.	£	s. d.
Capital Accounts—A, £25,000 ;					
B, £10,000				35,000	- -
Stock at December 31st, 1926		8,200	- -		
Buildings		14,600	- -		
Machinery and plant		8,200	- -		
Sundry creditors				6,600	- -
Bills payable				3,084	- -
Cash in hand		42	- -		
Purchases		21,800	- -		
Sales				41,000	- -
Trade charges		670	- -		
Wages		12,400	- -		
Salaries		920	- -		
Travelling expenses		560	- -		
Rates and taxes		270	- -		
Insurance		112	- -		
Bad debt reserve				600	- -
Cash in Bank		1,620	- -		
Discount		520	- -		
Bad debts		120	- -		
Sundry debtors		14,000	- -		
A, Drawings Account, £1,500 ;					
B, Drawings Account, £750 ..		2,250	- -		
		<u>£86,284</u>	<u>- -</u>	<u>£86,284</u>	<u>- -</u>

The stock at December 31st, 1927, was £8,760. Provide for depreciation on machinery and plant at 10%, and for discount to be allowed sundry debtors at 5%. £85 of the amount paid for insurance is applicable to year 1928.

Prepare Trading and Profit and Loss Accounts and

Balance Sheet at December 31st, 1927. Interest on capital at 5% to be allowed, thereafter profits divisible—A, two-thirds, and B, one-third. [20]

2. On July 1st, 1928, J. Jones drew an Accommodation Bill on B. Brown for £150 at four months. The latter accepted the bill, and Jones discounted it on the same day at 6% per annum, the proceeds being shared equally. The bill was met in due course by Brown, who, at the same time, received the moiety due from Jones. Show the transactions as they should appear in Brown's Cash Book and Ledger. [12]
3. Alexander Bruce & Co., Ltd., was incorporated on April 1st, 1926. In the prospectus the nominal capital was stated at £100,000, in shares of £1 each, of which 50,000 were to be allotted to the vendors in full payment of the purchase price of the assets of Alexander Bruce & Co., which were acquired by the new company, and the remaining 50,000 were offered for public subscription—5s. payable on application, 10s. on allotment, and the remaining 5s. two months after allotment. The issue was fully subscribed. On April 25th, 1926, the directors allotted 50,000 shares, and the total amount due on allotment was received by June 15th, and the directors on that date allotted the 50,000 shares to the vendors and made the final call of 5s., payable on July 1st. This was all received by August 1st, with the exception of £250, and the directors on August 15th forfeited the shares in respect of which these calls were outstanding.
Give the Journal entries to record these transactions in the books of Alexander Bruce & Co., Ltd., and show how the Balance Sheet of the company will appear after forfeiture of the shares. [25]
4. On August 8th, 1928, J. Black shipped to his agent in Calcutta, W. White, goods valued at £120 for sale on commission. Black paid £6 for freight and charges. On October 6th he received from White his Account Sales, showing that the goods realised £170, less White's commission of 5%. At the same time he received draft at sixty days for the net proceeds. Give Journal entries recording the transactions in the books of J. Black, and show the Ledger Accounts for the consignment. [15]

5. At December 31st, 1927, you took credit in your books for estimated discount receivable of £200, and provided £1,200 against the estimated discount allowable by you. During 1928 the discount deducted by customers from their accounts totalled £5,000. When paying creditors you were allowed £700. At December 31st, 1928, you considered it necessary to reserve £1,000 to meet discount on book debts, and you calculated that £150 of discount might be taken credit for in respect of the balances on your purchase ledger accounts. With the foregoing information prepare a Ledger Account to show the transfer to Profit and Loss Account, and the position of discount provisions at January 1st, 1929. [10]
6. (a) Describe the Imprest System of recording Petty Cash.
 (b) What is meant by—Returns Inwards, Personal Accounts, Nominal Accounts, Trade Discount, Consignee, Closing Entries ? [13]

EXERCISE 147

1. The following is the Trial Balance of Messrs. Green & Black as at December 31st, 1927 :

		Dr.			Cr.		
		£	s.	d.	£	s.	d.
R. Green—Capital Account	..				10,000	—	—
S. Black— „ „	..				8,000	—	—
R. Green—Drawings Account	..	1,500	—	—			
S. Black— „ „	..	800	—	—			
Salary Accounts :							
R. Green	.. ..	500	—	—			
S. Black	.. ..	200	—	—			
Bills receivable	.. ..	900	—	—			
Creditors	.. ..				1,500	—	—
Loan to firm on mortgage over buildings	.. ..				3,000	—	—
Carriage inwards	.. ..	200	—	—			
Stock	.. ..	6,000	—	—			
Sales	.. ..				33,000	—	—
Purchases	.. ..	6,000	—	—			
Carriage outwards	.. ..	250	—	—			
Bad debts	.. ..	150	—	—			
Machinery and plant	.. ..	4,500	—	—			
Buildings	.. ..	6,000	—	—			
Carried forward	.. ..	£27,000	—	—	£55,500	—	—

Trial Balance—*continued*

		<i>Dr.</i>			<i>Cr.</i>		
		£	s.	d.	£	s.	d.
Brought forward		27,000	--	--	55,500	--	--
Wages		14,000	--	--			
Office salaries		1,000	--	--			
Debtors		7,500	--	--			
Trade expenses		750	--	--			
Travellers' commission and ex-							
penses		1,400	--	--			
Rates and taxes		120	--	--			
Bad debt reserve					200	--	--
Insurance		30	--	--			
Cash in Bank		3,875	--	--			
Cash on hand		25	--	--			
		£55,700	--	--	£55,700	--	--

The following provisions and adjustments are to be made :

- (1) Depreciate buildings by $2\frac{1}{2}\%$, and machinery by 10%.
- (2) Allow interest on capital at 5%.
- (3) Make the bad debts reserve 5% of the outstanding debtors.
- (4) S. Black has not drawn the full salary to which he is entitled, the amount still undrawn being £300.
- (5) Wages amounting to £800 are unpaid at date.
- (6) Stock on hand at December 31st, 1927, amounts to £5,500.
- (7) Profits are divisible equally.

Prepare Trading and Profit and Loss Accounts for the year ended December 31st, 1927, together with relative Balance Sheet as at that date. [25]

2. On November 1st, 1927, a company issues 50,000 shares of £1 each, at a premium of 2s. per share, payable as follows :

5s. on application ;

7s. on allotment, including the premium on December 1st, 1927, and the balance of 10s. per share one month after allotment.

- (1) Assuming that all the cash has been received, give Journal entries to record the above.
- (2) Assume that 500 shares are forfeited for non-payment of the call of 10s. per share. Give Journal entries recording the forfeiture. [12]

Prepare the Realisation Account and the Partners' Capital Accounts. [16]

6. Explain briefly the following terms :

- (1) Consignment.
- (2) Premium on Shares.
- (3) Secret Reserve.
- (4) Contingent Liability.
- (5) Cumulative Preference Shares.
- (6) Trade Discount.

[12]

EXERCISE 148

1. Undernoted is the Trial Balance of the A B Engineering Co., Ltd., at December 31st, 1926 :

Trial Balance					<i>Dr.</i>		<i>Cr.</i>			
					£	s.	d.	£	s.	d.
Wages	..	..	..	18,000	-	-				
Purchases	..	..	..	23,000	-	-				
Travelling expenses	..	..	..	500	-	-				
Stock on hand, 1/1/26	..	..	..	3,000	-	-				
Sales	..	..	..				73,000	-	-	
Work in progress, 1/1/26	..	..	..	15,000	-	-				
Carriage	..	..	..	500	-	-				
Rent, rates, and taxes	..	..	..	2,400	-	-				
Heating and lighting	..	..	..	1,000	-	-				
Repairs to plant	..	..	..	400	-	-				
General expenses	..	..	..	1,000	-	-				
Salaries	..	..	..	3,800	-	-				
Directors' fees	..	..	..	300	-	-				
Discount allowed	..	..	..	3,000	-	-				
Discount received	..	..	..				500	-	-	
Motor expenses	..	..	..	800	-	-				
Interest	..	..	..	600	-	-				
Land and buildings	..	..	..	25,000	-	-				
Plant and machinery	..	..	..	55,000	-	-				
Share capital	..	..	..				100,000	-	-	
Investments	..	..	..	10,000	-	-				
Cash in Bank	..	..	..	2,700	-	-				
Sundry creditors	..	..	..				7,000	-	-	
Sundry debtors	..	..	..	12,000	-	-				
Cash on hand	..	..	..	600	-	-				
Patterns	..	..	..	900	-	-				
Motor-cars	..	..	..	1,000	-	-				
					£180,500	-	-	£180,500	-	-

The stock on hand at December 31st, 1926, was valued at £2,000, and the work in progress at £12,000. Depreciation is to be written off land and buildings at $2\frac{1}{2}\%$, plant and machinery at 5%, patterns at 15%, and motor-cars at 15%. Provide a bad debt reserve at $2\frac{1}{2}\%$.

You are required to prepare Trading Account and Profit and Loss Account for the year ending December 31st, 1926, and Balance Sheet as at that date. [80]

2. X, who is in business as a painter and decorator, keeps his books by Single Entry. You have been able to obtain the following information from the books :

			31/12/25.	31/12/26.
Stock on hand	..	..	£900	£750
Shop fittings	..	..	100	100
Debtors	..	..	150	160
Creditors	..	..	300	200
Cash in Bank	..	..	50	140
Cash on hand	..	..	10	—

During the year he received £2,200 from debtors and paid £1,500 to creditors, the latter figure including £50 for goods for his own use. He also paid £420 for wages, which included £4 per week to himself and £200 for sundry expenses.

Prepare a statement showing the results of X's trading for the year 1926. [15]

3. On January 1st, 1926, A drew on B for £1,000 at three months, and B accepted the bill on the following day. On February 1st A discounted this bill with his bankers, who charged him 5% per annum for the accommodation. The bill was duly met at maturity.

Show, in Journal form, the proper entries in A's books.

[10]

4. A received from B on consignment 600 barrels of flour, at 20s. per barrel. A paid freight, £25 ; insurance, £5 ; and storage, £5. He sold 300 barrels at 26s., and the remainder at 25s., and charged B commission at $2\frac{1}{2}\%$ on these sales. To settle the balance due, A sends to B a bill at three months, drawn on and accepted by C on May 1st, 1926. The bill is met at maturity. You are required to show :

- (1) The Account Sales.
- (2) The entries in A's books.
- (3) The entries in B's books.

[25]

5. Explain the following terms :

Bill of Lading.

Consignment.

Not negotiable.

Goodwill.

Premium on Shares.

Accommodation Bill.

[10]

6. Which of the balances of the following accounts would you expect to find in the Balance Sheet, which in the Trading Account, and which in the Profit and Loss Account, and on which side of the Account would they appear ?

(1) Machinery repairs and renewals.

(2) Discounts allowed.

(3) Unexpired proportion of insurance premiums.

(4) Transfer fees.

(5) Unclaimed dividends.

(6) Stock of goods on hand at end of year.

(7) Calls in arrear.

(8) Debenture stock.

(9) Goodwill.

(10) Sundry creditors.

(11) Depreciation.

(12) Debenture interest.

[10]

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